

***United States Court of Appeals
for the Second Circuit***



**APPELLANT'S
APPENDIX**

76-7435

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

ORIGINAL

APPEAL DOCKET NO. 76-7435

WARNER-JENKINSON COMPANY,
Plaintiff-Appellant,

against

ALLIED CHEMICAL CORPORATION,
Defendant-Appellee,

and

H. KOHNSTAMM & COMPANY, INC.,
Plaintiff-Intervenor-Appellant,

against

ALLIED CHEMICAL CORPORATION,
Defendant-Appellee.

Appeal from an Order and Judgment of the United States District
Court for the Southern District of New York

APPENDIX TO THE BRIEFS

Dated: October 22, 1976
At: New York, New York

KENYON & KENYON REILLY CARR & CHAPIN
Francis T. Carr
Paul Lempel
Edwin Baranowski
Philip J. McCabe
Stephen B. Shear
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Appellants
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

OF COUNSEL

Donald G. Leavitt
Koenig, Senniger, Powers &
Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson
Company

Patrick J. Joyce
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm &
Company, Inc.

PAGINATION AS IN ORIGINAL COPY

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RELEVANT DOCKET ENTRIES

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
CIVIL ACTION NO. 76 Civ. 2744 (MEF)

<u>Date</u>	<u>Proceedings</u>
6-22-76	Fld complt & Iss Summs --- Notice Patent Comm.
6-23-76	Fld Pltffs' OSC for an order that pltffs should deposit in escrow the royalties under license agreements between pltffs and deft...ret 6-25-76 9:15PM Rm 2704.Knapp, J. If deft has an object to the ret date specified herein, it shall make application on notice to Judge Frankel's chambers by 5PM on 6-23-76. - Knapp, J.
6-23-76	Fld pltffs' Memo of Law in support of proposed order to deposit Royalties in Escrow.
7-1-76	Fld Memorandum for Counsel Accordingly, I shall continue to handle it. I have today signed the order submitted by pltffs after deleting some portions of the final sentence....Frankel, J. mn
7-1-76	Fld Order that the hearing date of OSC is adj to 8-1-76 at 10:30AM. Until dec on OSC pltffs may w/h their royalty payments due on 6-30-76 etc....Frankel, J. mn
6-24-76	Filed defts notice of application & affdvt to adj. the 6-25-76 return date re show cause order to 7-12-76
7-29-76	Filed deft's affdvt in support of motion to dismiss the complt pursuant to Rule 12(b).
7-29-76	Filed defts notice of motion to dismiss the complt. Ret. 8-11-76
7-29-76	Filed defts memo in support of Rule 12(b) motion to dismiss the complt.

RELEVANT DOCKET ENTRIES

<u>Date</u>	<u>Proceedings</u>
8-9-76	Filed pltffs reply memo in support of their proposed order to deposit royalties in escrow pendente lite.
8-10-76	Filed pltffs memo in opposition to defts motion to dismiss under Rule 12(b).
8-11-76	Filed Memo End on bk of motion fld 7-28-76 ...Motion granted. Settle Order..Frankel, J.
8-11-76	Fld Memo End of bk of motion filed 6-23-76Motion denied...Settle order Frankel, J.
8-13-76	Filed Order & Judgment that defts motion to dismiss the complt is granted. Pltffs application for an order authorizing the deposit of royalties in escrow, pendente lite is denied. Pltffs shall pay to defts within 15 days after the entry of this Order, the royalties which were due 6-30-76, plus 6% interest for the period withheld, etc. Frankel, J. Judgment Ent. 8-13-76, Clerk. n/m
8-25-76	Filed plttf & plttf, intervenor's memo in support of approval of Supersedeas Bonds.
8-27-76	Filed deft's memo in opposition to plttfs application for a stay conditioned upon supersedeas bonds.
8-30-76	Filed Memo-End. on show cause order dtd 8-25-76. Motion granted. So Ordered, Frankel, J. n/m
8-30-76	Filed plttfs notice of filing of Supersedeas Bonds for Warner-Jenkinson Co. & H. Kohnstamm & Co. Inc.
8-27-76	Filed by plttf & plttf-Intervenor's notice of appeal to the USCA from the Order & Judgment ent. 8-13-76, granting deft's motion to dismiss the complt, denying plttfs' application for an ordr authorizing the deposit of royalties in escrow,

RELEVANT DOCKET ENTRIES

Date

Proceedings

pendente lite, & requiring payment of the royalties which were due on 6-30-76 plus 6% interest for the period withheld. Copy sent to: William J. Gilbreth, William K. Kerr, - Fish & Neave, 277 Park Ave., New York, N.Y. 10017.

9-7-76 Filed transcript of record of proceedings dated: August 27-76.

9-20-76 Filed stip. re corrections to transcript.

OTHER PARTS OF THE RECORD

<u>Date</u>	<u>Part of the Record</u>
7-6-76	Summons and Marshall's Return on Allied Chemical
7-14-76	Stipulation and Order Extending Defendant's Time to Answer
8-11-76	Memorandum to Docket Clerk re August 11, 1976 Hearing
8-25-76	Order to Show Cause for Approval of Supersedeas Bonds and Endorsement Granting Order
8-27-76	Warner-Jenkinson Supersedeas Bond Approved
8-27-76	H. Kohnstamm Supersedeas Bond Approved
9-27-76	Clerk's Certificate

IN.	NUMBER	MO.	DAY	YEAR	NO.	U.	S.	OTHER	NUMBER	NO.	VR.	NUMBER
	27th	06	22	76	690	1		Declaratory Judg.	0045		76	27th

PLAINTIFFS
**JOHN J. HENRY & COMPANY and
 E. HENRY & COMPANY, INC.**
 (Pliff, Intervenor)

DEFENDANTS
ALLIED CHEMICAL CORPORATION.

CAUSE
 For summary declaration that U.S. Patents Nos 3,59,617 and 3,640,733 are invalid, in not
 enforceable and unenforceable.

HENRY & HENRY REILLY CARR & CHAPIN
 59 Maiden Lane NYC 10038 425-7200

ATTORNEYS

William J. Gilbreth
 277 Park Ave. 10017
 826-1050



16-1435

<input checked="" type="checkbox"/> CHECK HERE IF CASE WAS FILED IN FORM PAID	DATE	FILING FEES PAID		STATISTICAL CARDS	
	JUN 22 1976	RECEIPT NUMBER	C.D. NUMBER	CARD	DATE MAILED
		03247		24	24

BEST COPY AVAILABLE

DATE	PROCEEDINGS
5-22-76	Filed complt & Iss Summs — Notice Patent Comm.
6-23-76	Filed Pltffs' OSC for an order that pltffs should deposit in escrow the royalties under licence agreements between pltffs and deft....ret: 6-23-76 9:15PM Rm 2704.Knapp,J. If deft has an object to the ret date specified herein, it shall make application on notice to Judge Frankel's chambers by 1pm on 6-23-76.—Knapp,J.
6-23-76	Filed Pltffs' Memo of Law in support of proposed order to deposit Royalties in Escrow.
6-1-76	Filed Memorandum for Counsel Accordingly, I shall continue to handle it. I have today signed the order submitted by pltffs after deleting some portions of the final sentence....Frankel,J. am
7-1-76	Filed Order that the hearing date of OSC is adj to 8-11-76 at 10:30AM. Until dec on OSC pltffs may w/h their royalty payments due on 6-30-76 etc....Frankel,J. am
6-24-76	Filed defts notice of application & affdvt to adj. the 6-25-76 return date re show cause order to 7-12-76.
7-14-76	Filed Stip & Order extending to 7-28-76, defts time to move or answer pltffs complt.....FRANKEL,J.
7-29-76	Filed deft's affdvt in support of motion to dismiss the complt: pursuant to Rule 12(b).
7-29-76	Filed defts notice of motion to dismiss the complt. Ret. 8-11-76
7-29-76	Filed defts memo in support of Rule 12(b) motion to dismiss the complt.
8-9-76	Filed pltffs reply memo in support of their proposed order to deposit royalties in escrow pendente lite.
8-10-76	Filed pltffs memo in opposition to defts motion to dismiss under Rule 12 (b).
8-11-76	Filed Memo Ent on bk of motion fld 7-28-76....Motion granted. Settle Order....
8-11-76	Filed Memo Ent on bk of motion fld 6-23-76....Motion denied....Settle Order....
8-11-76	Filed Memo to Docket Clerk—Hearing Ealdon on motion...Action is dismissed—settle order....etc....
7-6-76	Filed summons & Marshal's return. Served: Allied Chemical Corp. By: R.L. Fitzgerald 6-29-76
8-13-76	Filed Order & Judgment that defts motion to dismiss the complt is granted. Pltffs application for an order authorizing the deposit of royalties in escrow, pendente lite is denied. Pltffs shall pay to defts within 15 days after the entry of this Order, the royalties which were due 6-30-76, plus 6% interest for the period with interest. FRANKEL,J. Judgment Ent. 8-13-76, Clerk. n/m
8-25-76	Filed pltff & pltff, intervenor's Show Cause Order for approval of Supersedeas Bonds. Ret. 8-27-76.
8-25-76	Filed pltff & pltff, intervenor's memo in support of approval of Supersedeas Bonds.

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Con't on Page 22

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WARNER JENKINSON CO. -v- ALLIED CHEMICAL

76 CIV
FRANKEL

U. S. 220 Sup. Civil District Court

Page 2

DATE	PROCEEDINGS
8-27-76	Filed defr's memo in opposition to pliffs application for a stay conditioned upon supersedeas bonds.
8-27-76	Filed Supersedeas Bond as to pliff Warner-Jenkinson & Co. Approved. 8-27-76. FRANKEL, J.
8-27-76	Filed Supersedeas Bond as to pliff-Intervenor H. Kohnstamm & Co., Inc. Approved 8-27-76. FRANKEL, J.
8-30-76	Filed Memo-Ent. on show cause order dtd 8-25-76. Motion granted. So Ordered. FRANKEL, J. n/m
9-30-76	Filed pliffs notice of filing of Supersedeas Bonds for Warner-Jenkinson Co. & H. Kohnstamm & Co., Inc.
8-27-76	Filed by pliff & pliff-Intervenor's notice of appeal to the USCA from the Order & judgment ent. 8-13-76, granting defr's motion to dismiss the comlt, denying pliffs' application for an order authorizing the deposit of royalties in escrow, pendente lite, & requiring payment of the royalties which were due on 6-30-76 plus 6% interest for the period withheld. Copy sent to: William J. Gilbreth, William R. Kerr, - Fish & Neave, 277 Park Ave., New York, N.Y. 10017.
9-7-76	Filed transcript of record of proceedings dtd: August 27-76.
9-30-76	Filed pliff's corrections to transcript

TRUE COPY
RAYMOND F. BURCHARDT, CLERK
Deputy Clerk

Call

COMPLAINT

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

JUDGE FRANKEL

-----X
WARNER-JENKINSON COMPANY
2526 Baldwin Street
St. Louis, Missouri 63106,
a Missouri corporation,

76 CIV. 2744

Plaintiff,

v.

ALLIED CHEMICAL CORPORATION
Columbia Road and Park Avenue
Morristown, New Jersey 07460,
a New York corporation,

Defendant.

FILED
U.S. DISTRICT COURT
JUN 22 3 54 PM '76
S.D. OF N.Y.

Civil Action
No. _____

-----X
and
-----X

H. KOHNSTAMM & COMPANY, INC.
161 Avenue of the Americas
New York, New York 10013,
a New York corporation,

Plaintiff.

v.

ALLIED CHEMICAL CORPORATION
Columbia Road and Park Avenue
Morristown, New Jersey 07460,
a New York corporation,

Defendant.

COMPLAINT

Plaintiffs, Warner-Jenkinson Company and H. Kohnstamm
& Company, Inc., as and for their cause of action against defendant,
Allied Chemical Corporation, allege by their attorneys that:

THE PARTIES

1. Plaintiff, Warner-Jenkinson Company, (hereinafter
"Warner-Jenkinson"), is a Missouri corporation having its

1

principal place of business at 2526 Baldwin Street, St. Louis, Missouri.

2. Plaintiff, H. Kohnstamm & Company, Inc., (hereinafter "Kohnstamm"), is a New York corporation having a place of business and doing business at 161 Avenue of the Americas, New York, New York.

3. Defendant, Allied Chemical Corporation, (hereinafter "Allied"), is a New York corporation having an office at 1411 Broadway, New York, New York and its principal place of business at Columbia Road and Park Avenue, Morristown, New Jersey.

JURISDICTION AND VENUE

4. This action is brought under the Patent Laws of the United States, Title 35, U.S.C., for a declaration that United States Patents Nos. 3,519,617 and 3,640,733 are invalid, not infringed and unenforceable, and for the award of attorney's fees. Plaintiffs also seek a declaration that as a consequence of the invalidity of the patents, license agreements for said patents, under which plaintiffs have paid substantial royalties to Allied, are void. However, during the pendency of this action and subject to the approval of the Court, plaintiffs will continue to deliver royalties in escrow. Plaintiffs also seek such other and further relief as is set forth in the Complaint.

5. The matters in controversy relate to United States Patents Nos. 3,519,617 and 3,640,733, and exceed the sum or value of Ten Thousand Dollars (\$10,000.00) exclusive of interest and costs. This Court has jurisdiction pursuant to 28 U.S.C. §§1331, 1332 and 1338; 28 U.S.C. §§2201 and 2202; and the

pendent and ancillary jurisdiction of the Court. Venue is proper pursuant to 28 U.S.C. §1391.

6. Kohnstamm has an interest affected by the adjudication of issues involving common questions of law and fact as to it and Warner-Jenkinson in this action against Allied. Kohnstamm alternatively moves, and does hereby move, to intervene as a plaintiff in the action Warner-Jenkinson Company v. Allied Chemical Corporation and does hereby adopt as its motion to intervene and its Complaint against Allied that set forth herein.

THE CONTROVERSY

7. Warner-Jenkinson, Kohnstamm and Allied are engaged in the manufacture, sale and distribution in the United States of color additives for foods, drugs and cosmetics which are certified for such use by the Food and Drug Administration pursuant to the Federal Food, Drug and Cosmetic Act. In particular, each party herein manufactures and sells the certified color additive known as F.D. & C. Red No. 40; and Warner-Jenkinson has sold such color additive to Kohnstamm.

8. F.D. & C. Red No. 40 is a synthetic organic dye having a particular molecular structure and chemical purity as defined and required by law through published regulations of the Food and Drug Administration. It is one of nine synthetic organic dyes permitted to be used to color foods in the United States.

9. The nine certified color additives are sold alone as "primary" colors, or mixed with other color additives or ingredients to produce "blends", or precipitated on inert materials to produce "lakes". Each certified color additive differs in

color, shade, intended use, and commercial significance to the business of plaintiffs.

10. F.D. & C. Red No. 40 is the sole red color additive commercially practicable for general use in the United States. F.D. & C. Red No. 40 is expected to be the food, drug and cosmetic color additive most widely sold in the United States and the most widely sold of all color additives manufactured and sold by plaintiffs.

11. F.D. & C. Red No. 40 has no intrinsic desirability or characteristic which does not occur in other dyes having the same or similar chemical formulae. The value of F.D. & C. Red No. 40 to the business of plaintiffs results from regulations by the Food and Drug Administration prohibiting the use of a color additive for foods, drugs and cosmetics formerly identified as F.D. & C. Red No. 2. The color additive F.D. & C. Red No. 2 has historically been the largest selling and most widely used color additive in the United States. The prohibition against use of F.D. & C. Red No. 2 leaves F.D. & C. Red No. 40 as the only commercially practicable red color additive available for general use in foods, drugs and cosmetics and for which there are no reasonably interchangeable substitutes at the present time.

12. Allied is the owner of United States Patent No. 3,519,617 for "Red Phenyl-Azo-Naphthol Dyestuffs for Edible Compositions" which issued to Allied on July 7, 1970 as assignee of Gustav E. Rast and Russell I. Steiner, and of United States Patent No. 3,640,733 for "Edible Substrates Colored with Monoazo Dyestuffs" which issued to Allied on February 8, 1972 as assignee of the said Rast and Steiner. Allied has in the past, is presently

claiming, and is expected to continue to claim and allege that, unless licensed by Allied, the manufacture, use or sale of F.D. & C. Red No. 40 and the use of F.D. & C. Red No. 40 to color edible substrates infringes said patents.

13. The parties herein were previously involved in patent litigation involving United States Patents Nos. 3,519,617 and 3,640,733, to wit, civil action H. Kohnstamm & Company, Inc. v. Allied Chemical Corporation, Warner-Jenkinson Company v. Allied Chemical Corporation, 72 Civ. 301 (WCC) Consolidated, Southern District of New York. After the commencement of trial of said action in March, 1975, the parties settled and the Court dismissed the action without prejudice as to the issues of validity, enforceability and infringement. At that time each plaintiff entered into a separate royalty bearing license agreement with defendant under the said patents.

14. Notwithstanding the dismissal without prejudice of said action, plaintiffs still maintain that United States Patents Nos. 3,519,617 and 3,640,733 are invalid, unenforceable and not infringed and that said royalties are not properly payable to Allied under licenses to said patents.

15. From the date of such license agreements, plaintiffs have made substantial royalty payments to Allied under said agreements and have otherwise fully complied with and performed every obligation thereunder. During the pendency of this action plaintiffs will continue to perform under the agreements, and royalties that may be due will be delivered in escrow, subject to this Court's approval. A copy of the escrow agreements are appended hereto. Plaintiffs move this Court to approve the aforesaid escrow arrangements for the pendency of this litigation.

16. The terms of the settlements and licenses reflected the limited importance of F.D. & C. Red No. 40 in 1975 to the businesses of plaintiffs. At that time F.D. & C. Red No. 40 was a specialty color of limited sales potential and application in view of the then continued listing of F. D. & C. Red No. 2 which was the most widely used red color additive for general use. Reflecting these commercial circumstances, the licenses carried a royalty rate of 17-1/2% of the net sales price of F.D. & C. Red No. 40 received by plaintiffs for licensed products sold.

17. Since that time the Food and Drug Administration has banned F. D. & C. Red No. 2, and F. D. & C. Red No. 40 has become and is expected to remain the sole commercially practicable red color additive suitable for general use in foods, drugs and cosmetics in the United States and for which no reasonably interchangeable and federally approved substitute yet exists. The 17-1/2% royalty rate has therefore become economically oppressive, unreasonable and excessively high, arbitrary and unjustifiable, and constitutes a restraint of the trade and commerce in color additives and its collection as against plaintiffs constitutes a misuse of patent rights and unfair competition for the reasons, among others, separately and cumulatively that:

a.) The consuming public, and the plaintiffs, by actions beyond their control, having been deprived of the use of any competitive substitutes for F.D. & C. Red No. 40 by the Food and Drug Administration, have no other choice, if they are to remain in business and continue to use red color additives, but to use F.D. & Red No. 40, subject to Allied's invalid patents.

b.) The proportional ratio of royalty to produc-

tion cost results in an arbitrarily, unnecessarily and unreasonably high sales price for F.D. & C. Red No. 40; and increases the sales prices of blends and lakes in which other unpatented color additives and ingredients are used in combination with F.D. & C. Red No. 40, and of the edible substrates in which such are used.

c.) Plaintiffs will continue to be oppressed by royalty payments made for the use of invalid, non-infringed and unenforceable patents under license agreements with Allied, which payments are not justified by any intrinsic value of the alleged patented inventions, but result as a consequence of other governmental regulations.

18. United States Patents Nos. 3,519,617 and 3,640,733 are invalid and unenforceable, and plaintiffs' manufacture, use or sale of, and its customers' use of F.D. & C. Red No. 40 does not infringe said patents because said patents fail to satisfy the criteria of Title 35 U.S.C. and because Allied has failed and continues to fail to follow the requisite standards of equity regarding the obtaining, use and maintenance of patent monopolies. In particular:

a.) Each patent fails to satisfy the criteria for patent validity embodied in 35 U.S.C. §§102 and 103 because German Patent 12,451 describes the subject matter claimed in Patent Nos. 3,519,617 and 3,640,733.

b.) The claims of each patent define subject

matter which would have been obvious under 35 U.S.C. §103 in view of prior art which plaintiffs will provide before trial in accordance with 35 U.S.C. §282.

c.) Each patent fails to satisfy the criteria for patent validity set forth in 35 U.S.C. §112 concerning patent specifications and claims.

d.) Each patent is unenforceable because of Allied's conduct before the United States Patent Office during prosecution of the applications for the patents in suit; and in particular because of:

1.) Allied's failure to disclose its knowledge of German Patent 12,451 to the Patent Office; and

11.) Allied's misleading representations and omissions to the Patent Office as to its claims made respecting the characteristics of the compositions claimed by the patents.

e.) No activity of plaintiffs with respect to their manufacture, use or sale or their customers' use of F.D. & C. Red No. 40 or their customers' sale of edible substrates colored with F.D. & C. Red No. 40 infringes said patents.

f.) Each patent is misused.

19. Controversy exists between the parties in which plaintiffs seek a declaration of their rights respecting defendant's said patents. Plaintiffs have been, are and will continue to be damaged in their business and property, and the public deprived of full and fair competition, unless United States Patents Nos. 3,519,617 and 3,640,733 are declared invalid, unenforceable, and not infringed by the manufacture, use or sale of F.D. & C. Red No. 40 by plaintiffs or its customers, and the effects of the unreasonable, arbitrary, and high royalty for such invalid, unenforceable and non-infringed patents and defendant's misuse of said patents are dissipated by this Court's decree.

PRAYER FOR RELIEF

WHEREFORE, plaintiffs pray relief from this Court:

A. For a declaratory judgment that United States Patents Nos. 3,519,617 and 3,640,733 are invalid, unenforceable and not infringed by plaintiffs or their customers.

B. For a declaratory judgment that as a consequence of the invalidity of the patents, the license agreements between plaintiffs and defendant are null, void, unenforceable and without legal effect.

C. For judgment directing, compelling and enforcing restitution by defendant to plaintiffs of all royalties paid by plaintiffs to defendant pursuant to their aforesaid license agreements.

D. For judgment that defendant is not entitled to recover any amount of royalties paid in escrow during this civil action and directing that all of the sums delivered in escrow be

paid over to plaintiffs upon the conclusion of this action.

E. That defendant be temporarily and permanently enjoined from instituting any action against plaintiffs for royalties under their license agreements which are delivered in escrow or from instituting any infringement action against plaintiffs or their customers arising out of their manufacture, use or sale of F. D. & C. Red No. 40 for which the royalty is delivered in escrow herein.

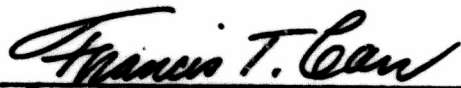
F. For such damages suffered by plaintiffs as a result of defendant's unfair competition, and for such other further relief to dissipate the effects of such unfair competition

G. For costs of this action and attorneys' fees.

H. For such other relief as the Court deems just and warranted by the circumstances.

KENYON & KENYON REILLY CARR & CHAPIN

Dated: June ²², 1976
At: New York, New York


Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
Telephone No. (212) 425-7200
Attorneys for Plaintiffs,
Warner-Jenkinson Company, and
H. Kohnstamm & Company, Inc.

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

EXHIBITS ANNEXED TO COMPLAINT

Escrow Agreements

June 22, 1976

Bankers Trust Company
Custodian Division
6th Floor
16 Wall Street
New York, New York 10005

Attention: Mr. Everett Souther

Gentlemen:

In accordance with the provisions of this Agreement, Warner-Jenkinson Company, 2526 Baldwin Street, St. Louis, Missouri, 63106 (herein called "the Depositor") will deliver to you quarterly and within thirty days of the last day of each of the months of May, August, November and February, beginning with May, 1976, and continuing thereafter until delivery is ordered as is set forth below, certain sums of money, herein called "the Fund", which are royalties under a License Agreement dated as of March 1, 1975 between the Depositor and Allied Chemical Corporation, Specialty Chemicals Division, P. O. Box 1057R, Morristown, New Jersey, 07960 (herein called "the Second Party"). You agree to hold the Fund, as Escrow Agent, IN ESCROW upon the following terms:

1. The Fund or any portion or pro-rata share thereof, as may be determined by the non-appealable order (as confirmed by certificate of the clerk of the court issuing such order) of a court of competent jurisdiction, shall be delivered to the Second Party or to the Depositor, as any such court shall direct in connection with the litigation, Warner-Jenkinson Company v. Allied Chemical Corporation.

2. Moneys held in the Fund shall be conserved by you and invested in United States government securities with 90 day maturities.

You shall acknowledge in writing to the Depositor and the Second Party each deposit made by Depositor to the Fund and shall periodically provide to Depositor and the Second Party a report of cumulative deposits made and interest earned thereon.

3. All interest and other earnings and profits of the Fund shall constitute part of the Fund.

4. The Depositor agrees with you as follows:

a) You shall not be bound in any way by any agreement or contract between the Depositor and the Second Party (whether or not you have knowledge thereof), and your only duties and responsibilities shall be to hold the Fund and to invest and dispose of it in accordance with terms of this Agreement.

b) As Escrow Agent hereunder, you shall have no duties or responsibilities except those expressly set forth herein. You may consult with counsel and shall be fully protected with respect to any action taken or omitted by you in good faith on advice of counsel and you shall have no liability hereunder except for your negligence. You shall have no responsibility as to the validity or value of the Escrow Property and you may rely on any certificate, statement, request, consent, agreement or other instrument which you believe to be genuine and to have been signed or presented by a proper person or persons.

c) This Agreement may not be altered or amended except as specified in a certified Order of the United States District Court for the Southern District of New York and upon your prior written consent. Should an attempt be made to change this Agreement in a manner which, in your sole discretion, you deem undesirable, you may resign as Escrow Agent by notifying the Depositor, Second Party and Court in writing and, until a successor Escrow Agent shall be appointed and shall accept such appointment, your only duty shall be to hold, invest and dispose of the Fund in accordance with the original provisions contained in this Agreement.

d) All notices required to be given hereunder shall be in writing and shall be effective when delivered by messenger, or by certified registered mail, cable or telex, to the respective party at its address specified below, namely:

Warner-Jenkinson Company
2526 Baldwin Street
St. Louis, Missouri 63106
Attention: Comptroller

Allied Chemical Corporation
Specialty Chemicals Division
P. O. Box 1057R
Morristown, New Jersey 07960
Attention: Comptroller

United States District Court
for the Southern District of
New York
United States Courthouse
Foley Square
New York, New York
Attention: Honorable _____
Re: 76 Civ. _____

or such other address as the Depositor or such other parties may have furnished to you and to the other parties in writing. Any notice to you shall be effective when received at your address above.

e) Your fees as Escrow Agent shall be \$300 per year.

f) The undersigned shall reimburse you for all expenses (including New York and Federal taxes and other governmental charges) incurred by you in connection with your duties hereunder and shall indemnify you and save you harmless against any and all liabilities, costs, and expenses, including counsel fees, for anything done or omitted by you in the performance of this Agreement, except as a result of your own negligence or bad faith.

5. This Agreement shall be construed in accordance with and governed by the law of the State of New York and shall be binding upon you and the Depositor and your and its respective successors and assigns; provided that any assignment or

transfer by the Depositor or Second Party of its rights under this Agreement or with respect to the Fund shall be void as against you unless (i) written notice thereof shall be given to you, (ii) the assignee or transferee shall agree in writing to be bound by the provisions of the Agreement, and (iii) you and the other Party shall have consented to such assignment or transfer.

If the foregoing Agreement is satisfactory to you, please so indicate by signing at the place provided below.

Agreed to by WARNER-JENKINSON COMPANY

By: 15/
NAME, TITLE

Agreed to by BANKERS TRUST COMPANY

By: _____ Dated: _____
NAME, TITLE

June 22 , 1976

Bankers Trust Company
Custodian Division
6th Floor
16 Wall Street
New York, New York 10005

Attention: Mr. Everett Souther

Gentlemen:

In accordance with the provisions of this Agreement, H. Kohnstamm & Company, Inc., 161 Avenue of the Americas, New York, New York 10013 (herein called "the Depositor") will deliver to you quarterly and within thirty days of the last day of each of the months of May, August, November and February, beginning with May, 1976, and continuing thereafter until delivery is ordered as is set forth below, certain sums of money, herein called "the Fund", which are royalties under a License Agreement dated as of March 1, 1975 between the Depositor and Allied Chemical Corporation, Specialty Chemicals Division, P.O. Box 1057R, Morristown, New Jersey, 07960 (herein called "the Second Party"). You agree to hold the Fund, as Escrow Agent, IN ESCROW upon the following terms:

1. The Fund or any portion or pro-rata share thereof, as may be determined by the non-appealable order (as confirmed by certificate of the clerk of the court issuing such order) of a court of competent jurisdiction, shall be delivered to the Second Party or to the Depositor, as any such court shall direct in connection with the litigation, H. Kohnstamm & Company, Inc. v. Allied Chemical Corporation.

2. Moneys held in the Fund shall be conserved by you and invested in United States government securities with 90 day maturities.

You shall acknowledge in writing to the Depositor and the Second Party each deposit made by Depositor to the Fund and shall periodically provide to Depositor and the Second Party a report of cumulative deposits made and interest earned thereon.

3. All interest and other earnings and profits of the Fund shall constitute part of the Fund.

4. The Depositor agrees with you as follows:

a) You shall not be bound in any way by any agreement or contract between the Depositor and the Second Party (whether or not you have knowledge thereof), and your only duties and responsibilities shall be to hold the Fund and to invest and dispose of it in accordance with terms of this Agreement.

b) As Escrow Agent hereunder, you shall have no duties or responsibilities except those expressly set forth herein. You may consult with counsel and shall be fully protected with respect to any action taken or omitted by you in good faith on advice of counsel and you shall have no liability hereunder except for your negligence. You shall have no responsibility as to the validity or value of the Escrow Property and you may rely on any certificate, statement, request, consent, agreement or other instrument which you believe to be genuine and to have been signed or presented by a proper person or persons.

c) This Agreement may not be altered or amended except as specified in a certified Order of the United States District Court for the Southern District of New York and upon your prior written consent. Should an attempt be made to change this Agreement in a manner which, in your sole discretion, you deem undesirable, you may resign as Escrow Agent by notifying the Depositor, Second Party and Court in writing and, until a successor Escrow Agent shall be appointed and shall accept such appointment, your only duty shall be to hold, invest and dispose of the Fund in accordance with the original provisions contained in this Agreement.

d) All notices required to be given hereunder shall be in writing and shall be effective when delivered by messenger, or by certified registered mail, cable or telex, to the respective party at its address specified below, namely:

H. Kohnstamm & Company, Inc.
161 Avenue of the Americas
New York, New York 10013
Attention: Comptroller

Allied Chemical Corporation
Specialty Chemicals Division
P. O. Box 1057R
Morristown, New Jersey 07960
Attention: Comptroller

United States District Court
for the Southern District of
New York
United States Courthouse
Foley Square
New York, New York
Attention: Honorable _____
Re: 76 Civ. _____

or such other address as the Depositor or such other parties may have furnished to you and to the other parties in writing. Any notice to you shall be effective when received at your address above.

e) Your fees as Escrow Agent shall be \$300 per year.

f) The undersigned shall reimburse you for all expenses (including New York and Federal taxes and other governmental charges) incurred by you in connection with your duties hereunder and shall indemnify you and save you harmless against any and all liabilities, costs, and expenses, including counsel fees, for anything done or omitted by you in the performance of this Agreement, except as a result of your own negligence or bad faith.

5. This Agreement shall be construed in accordance with and governed by the law of the State of New York and shall be binding upon you and the Depositor and your and its respective successors and assigns; provided that any assignment or

transfer by the Depositor or Second Party of its rights under this Agreement or with respect to the Fund shall be void as against you unless (i) written notice thereof shall be given to you, (ii) the assignee or transferee shall agree in writing to be bound by the provisions of the Agreement, and (iii) you and the other Party shall have consented to such assignment or transfer.

If the foregoing Agreement is satisfactory to you, please so indicate by signing at the place provided below.

Agreed to by H. KOHNSTAMM & COMPANY, INC.

By: Paul L. Kohnstamm, Pres.
NAME, TITLE

Agreed to by BANKERS TRUST COMPANY

By: _____ Dated: _____
NAME, TITLE

**MEMORANDUM OF LAW IN SUPPORT OF ORDER
TO SHOW CAUSE RE ESCROW OF ROYALTIES**

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X
WARNER-JENKINSON COMPANY :
Plaintiff, :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :
-----X

-and-

-----X
H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :
-----X

CIVIL ACTION

NO. 76 Civ. 2744 (MEF)

COPY RECEIVED

JUN 23 1976

FISH & NEAVE

ATTORNEYS FOR

BY

**PLAINTIFFS' MEMORANDUM IN SUPPORT OF THEIR
PROPOSED ORDER TO DEPOSIT ROYALTIES IN ESCROW**

Dated: June 23, 1976
At: New York, New York

KENYON & KENYON REILLY CARR & CHAPIN
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
Telephone No. 212-425-7200
Attorneys for Plaintiffs,
Warner-Jenkinson Company, and
H. Kohnstamm & Company, Inc.

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Fenniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
212-247-5010
Counsel for H. Kohnstamm
& Company, Inc.

NYON & KENYON REILLY CARR & CHAPIN

A-22

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :
Plaintiff, :
v. : Civil Action No.
ALLIED CHEMICAL CORPORATION, : 76 Civ. 2744 (MEF)
Defendant. :
-----x

-and-

-----x
H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :
-----x

PLAINTIFFS' MEMORANDUM IN SUPPORT OF
THEIR PROPOSED ORDER TO DEPOSIT ROYALTIES
IN ESCROW

I. Introduction

In this declaratory judgment action challenging the validity, enforceability and infringement of two United States Patents owned by defendant, Allied Chemical Corporation, plaintiffs Warner-Jenkinson Company and H. Kohnstamm & Company, Inc., bring on this

Order to Show Cause.

Warner-Jenkinson and Kohnstamm entered into licenses with Allied under the patents in suit as of March 1, 1975 after the dismissal without prejudice of previous litigation involving the patents.

By this application, plaintiffs seek:

- 1) This Court's approval of Escrow Agreements appended to the Complaint.
- 2) This Court's order that royalties under the license agreements to the two patents in suit be deposited in escrow during the pendency of the suit in accordance with these Escrow Agreements.
- 3) This Court's order that such deposit of royalties in escrow is in performance of plaintiffs' payment obligations under the license agreements.

II. Status of the Case

The Complaint in this case was filed on June 22, 1976. Royalties under plaintiffs' separate licenses with defendant are due by June 30, 1976, necessitating this application by a show cause order to obtain the relief sought.

The Escrow Agreements which are the subject of this application have been signed by plaintiffs and approved by the Escrow Agent,

Bankers Trust Company of New York. That plaintiffs are licensees of defendant's challenged patents may not be disputed. No other facts are necessary for the determination of the issue presented herein.

III. Argument

A. Plaintiffs' Proposed Escrow of Royalties Under Patent License Agreements is the "Commendable Way to Preserve the Status Quo" During this Litigation

In Lear, Inc. v. Adkins, 395 U.S. 653 (1969) the Supreme Court unmuzzled licensees to encourage their challenge to invalid patents:

Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. 395 U.S. at 670

As to royalty obligations under the license while the patents are challenged, the Court held:

[I]t may be suggested that although Lear [the licensee] must be allowed to raise the question of patent validity in the present lawsuit, it must also be required to comply with its contract and continue to pay royalties until its claim is finally vindicated in the courts.

The parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies

would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.

. . . [W]e hold that Lear must be permitted to avoid the payment of all royalties accruing after Adkins 1960 patent issued if Lear can prove patent invalidity. 395 U.S. at 673-4.

This District Court has stated the rule of Lear to be "unambiguous" that:

" . . . a licensee who challenges the validity of the patent cannot be obliged to pay royalties until the question of patent validity is finally resolved against him. Horwitt v. Movado Watch Agency, Inc., 364 F.Supp. 687,689 (S.D.N.Y. 1973)

The Second Circuit Court of Appeals in Painton & Co. v. Bourns, Inc., 442 F.2d 216,226 (2d Cir. 1971) recognized the Lear policy prohibiting royalty payments on invalid patents while validity was challenged by a licensee:

What Lear precisely held was that the courts may not enforce a royalty agreement with respect to an invention embodied in an American patent while the licensee was contesting its validity and could recover only when, as and if validity was established.

And Painton was approvingly cited by the Supreme Court in Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) for its interpretation that "Lear allows [licensees] to accept a license and pursue the contest without paying royalties while the fight goes on," 416 U.S. 488.

Where, as herein, plaintiffs are "challeng[ing] the scope and validity of the underlying patent[s] without first terminating [their] license agreement[s]," the Court of Appeals for the Third Circuit expressly approved the licensee's suit in American Sterilizer Co. v. Sybron Corp., 526 F.2d 542 (3rd Cir. 1975). There the Court of Appeals held at 526 F.2d 548:

Essentially, Sybron [the licensor] asserts that a patent licensee is responsible for the payment of royalties until either the license is terminated or the patent is declared invalid.

* * *

However, where as here the licensee has attacked the patent and has therefore brought "the type of suit authorized by Lear v. Adkins," Atlas Chemical Industries v. Moraine Products . . . [509 F.2d] at 5, the Sixth Circuit held that proof of invalidity would free the licensee from the liability for all royalties accruing during the course of litigation. Contrary to Sybron's argument, the Sixth Circuit, has reached a result identical to ours in a case presenting identical facts.

Recognizing that legal obligations are ultimately decided by the licensee's suit challenging patent validity, the Court of Appeals for the Sixth Circuit has commended the escrow procedure herein sought in Atlas Chemical Industries, Inc. v. Moraine Products, 509 F.2d 1 (6th Cir. 1974)

. . . an escrow is a commendable procedure to preserve the status quo during the course of litigation, the funds belong to neither party until the validity of the patent is determined. 509 F.2d at 7

Here, when the plaintiffs succeed in establishing the invalidity of the licensed patents, as in Lear, they "must be permitted to avoid the payment of all royalties." And monies payable after the date of plaintiffs' challenge need not be submitted until the patentee "is finally vindicated in the Courts."

Because these legal obligations of the parties will not be determined until the ultimate decision of the Court respecting validity of the licensed patents, the proposed escrow of royalties, recognized as "commendable" will, during the course of litigation, preserve the status quo and insure that the legal obligations of neither patentee nor licensees will be prejudiced or in any manner removed from the ultimate control of the Court.

B. The Proposed Escrow Agreements are Proper

Funds in escrow ". . . belong to neither party until the validity of the patent is determined" Atlas Chemical Industries, Inc. v. Moraine Products, supra, 509 F.2d at 7. Further,

Fundamental to the existence of an escrow is the transfer of the escrow instrument into the hands of a third party as depository. Prior to the happening of any of the conditions upon which the escrow agreement operates, the escrow agent is not empowered to act for either party. Although he may be an agent for one of the parties in other respects, with respect to the instrument in escrow his powers are solely limited to those stipulated in the escrow agreement. In the Matter of Dolly Madison Industries, Inc., 351 F.Supp. 1038, 1042 (E.D. Pa. 1972)

The proposed escrow agreements sought by this Court's order, signed by plaintiffs and approved by Bankers Trust Company, the intended escrow agent, fully meet the requirements of a proper escrow fund for this patent litigation. Monies deposited are taken out of the plaintiffs' control and their disposition is subject to this Court's ultimate control or agreement of the parties. The escrow fund will be conserved, including interest earned thereon and the parties will regularly be informed of the amount of deposits made and interest earned in the fund. By any standard, the proposed escrow agreements fairly and adequately preserve the rights of all parties consonant with their respective obligations during the pendency of this suit.

IV. Conclusion

On the reasons and authority set forth above, plaintiffs pray that their proposed order be granted and that this Court preserve the status quo and approve the "commendable" deposit of royalties in escrow during the pendency of this action.

Respectfully submitted,

KENYON & KENYON REILLY CARR & CHAPIN

Dated: June 23, 1976
At: New York, New York

Francis T. Carr (by Edwin Baranowski)
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
Telephone No. 212-425-7200
Attorneys for Plaintiffs,
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

A-29

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St Louis, Missouri 63101
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suit 2102
New York, New York, 10020
212-247-5810
Counsel for H. Kohnstamm & Company, Inc.

JUDGE'S MEMORANDUM RE RETAINING CASE

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----- x
WARNER-JENKINSON COMPANY,

Plaintiff,

-against-

ALLIED CHEMICAL CORPORATION
----- x

H. KOHNSTAMM & COMPANY, INC.

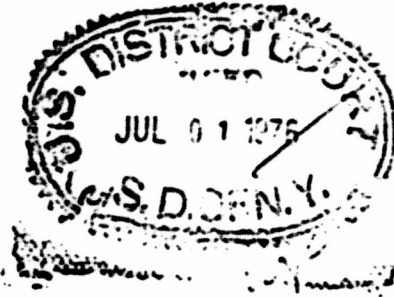
Plaintiff,

-against-

ALLIED CHEMICAL CORPORATION,

Defendant.
----- x

FRANKEL, D.J.



76 Civ. 2744

MEMORANDUM

FOR

COUNSEL

This is to inform counsel of two developments connected with the pending motion:

(1) Judge Conner, for reasons that will bind us all, has concluded that he should not take a reference of this case. Accordingly, I shall continue to handle it.

(2) I have today signed the order submitted by plaintiffs after deleting some portions of the final sentence.

Dated, New York, New York

June 30, 1976

Martin E. Frankel
U.S.D.J.

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**ORDER ADJOURNING HEARING AND PERMITTING
SHOW**

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

Civil Action No.

76 Civ. 2744 (MEF)

-----x
-and-

-----x
H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :



ORDER

This Court having heard the application of Allied Chemical Corporation, defendant, with respect to an adjournment of the hearing date for relief upon this Court's Order to Show Cause issued at the instance of plaintiffs on June 22, 1976,

IT IS HEREBY ORDERED THAT:

1. The hearing date for relief upon this Court's Order to Show Cause is hereby adjourned to August 11, 1976 at 10:30 A.M. Defendant shall serve and file its brief and affidavits in opposition by July 28, 1976. Plaintiffs shall serve and file their reply brief and affidavits by August 6, 1976.

2. Until the decision of this Court respecting the

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MEF
MEF

relief sought by plaintiffs set forth in the Order to Show Cause, plaintiffs may withhold their royalty payments due on June 30, 1976, under their license agreements with defendant dated as of March 1, 1975, without prejudice to their rights under said license agreements with defendant, and specifically without incurring a breach of said agreements by reason of said non-payment of royalty. If defendant prevails in opposition to the relief sought by plaintiffs, plaintiffs will ~~with~~ pay said royalties due June 30, 1976 plus 6% interest on said sums for the period withheld, ~~or suffer the consequences of their failure to make said royalty payments on or before June 30, 1976.~~

SO ORDERED

Dated: June 30, 1976
At: New York, New York

Martin E. Finkel
United States District Judge

DEFENDANT'S NOTICE OF APPLICATION

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----x
H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----x

CIVIL ACTION NO.
76 Civ. 2744 (MEF)

FILED
U.S. DISTRICT COURT
JUN 24 11 17 AM '76
S.D. OF N.Y.

NOTICE OF APPLICATION

To: Francis T. Carr, Esq.
Paul Lempel, Esq.
Edwin Baranowski, Esq.
Attorneys for Plaintiffs
Kenyon & Kenyon Reilly Carr & Chapin
59 Maiden Lane
New York, New York 10038
Telephone No. (212) 425-7200

PLEASE TAKE NOTICE THAT, at 5:00 P.M. this afternoon, June 23, 1976, or as soon thereafter as counsel may be heard, defendant will bring the attached application on for hearing before the Honorable Marvin L. Frankel in Room 2002, United States Courthouse, Foley Square, New York, New York.

FISH & NEAVE

June 23, 1976

By

W. J. Gilbreth
William J. Gilbreth
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Telephone No. (212) 826-1050

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**DEFENDANT'S APPLICATION TO ADJOURN
RETURN DATE**

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :
-----x

CIVIL ACTION NO.

H. ROHNSTAMM & COMPANY, INC., :

76 Civ. 2744 (MEF)

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :
-----x

DEFENDANT'S APPLICATION TO ADJOURN
THE JUNE 25, 1976 RETURN DATE
SPECIFIED IN THE JUNE 22, 1976 ORDER
TO SHOW CAUSE ENTERED IN THIS ACTION

NOW COMES DEFENDANT, Allied Chemical Corporation, and upon the annexed affidavit of William J. Gilbreth, respectfully applies that this Court adjourn to July 12, 1976, the June 25, 1976 return date specified in the Order to Show Cause entered in this action by the Honorable Whitman Knapp.

FISH & NEAVE

June 23, 1976

W. J. Gilbreth

William J. Gilbreth
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Telephone No. (212) 826-1050

patent 3,519,617 and for relief from alleged unfair competition. Amended Complaints were served by both plaintiffs on February 8, 1972 to add a prayer for a Declaratory Judgment as to the validity, enforceability and infringement of defendant's patent 3,640,733.

On March 10, 1975, after three years of discovery and other proceedings, trial was begun before the Honorable William C. Conner. William K. Kerr of our firm was lead trial counsel for defendant and I was his principal assistant.

4. Defendant objects to the June 25, 1976 return date set by Judge Knapp in the June 22, 1976 Order to Show Cause because:

(a) Mr. Kerr is scheduled to be away from the office until July 8 and I am scheduled to appear before the Honorable D. Dortch Warriner at 10 A.M. on June 25, 1976 in Alexandria, Virginia for a consolidated pretrial conference concerning several cases that have been ordered consolidated by the Judicial Panel on Multidistrict Litigation. Mr. Kerr is now on vacation on Nantucket Island and is not scheduled to return to New York City until July 7, with the exception of a one-day trip to New York City to attend a funeral on June 24, 1976.

(b) Opposition to plaintiff's application for an Order with respect to payment of royalties into an escrow account during the pendency of this action will require substantial preparation on Mr. Kerr's part and on my part.

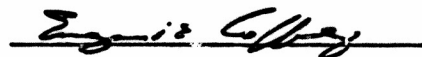
5. I am informed and I believe that F.D. & C. Red No. 2 was first ordered delisted by The Food & Drug Administration on February 12, 1976 and that, after an unsuccessful attempt to stay that Order, on April 9, 1976, The Food & Drug Administration published an Order denying the permanent listing of F.D. & C. Red. No. 2.

6. I am informed and I believe that, during the period September 1975 to April 1976, and pursuant to the settlement agreement and license agreements resulting from settlement of the earlier-instituted actions by plaintiffs, plaintiff have paid to defendant over \$500,000. for royalties and for past infringement of defendant's two patents now in suit.



William J. Gilbreth

Sworn to and subscribed
before me, a Notary Public,
this 23rd day of June 1976.



- EUGENE COFFEY
Notary Public, State of New York
No. 51-5731875
Qualified in New York County
Commission Expires March 30, 1978

**AFFIDAVIT OF WILLIAM J. GILBRETH IN SUPPORT OF
DEFENDANT'S MOTION TO DISMISS COMPLAINT**

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

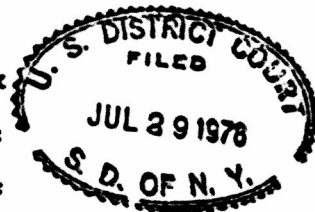
-----x-----
WARNER-JENKINSON COMPANY and
H. KOHNSTAM & COMPANY, INC.,

Plaintiffs,

v.

ALLIED CHEMICAL CORPORATION,

Defendant.



: Civil Action No.:

: 76 Civ. 2744 (MEF)

-----x-----
AFFIDAVIT OF WILLIAM J. GILBRETH

County of New York)
) ss
State of New York)

WILLIAM J. GILBRETH, being duly sworn, states:

1. I am a member of the Bars of the State of New York and Federal Courts, and a partner in the firm of Fish & Neave, 277 Park Avenue, New York, New York 10017, the attorneys for defendant Allied Chemical Corporation.

2. I make this affidavit in support of defendant's motion to dismiss the complaint pursuant to Rule 12(b)(1), F.R.Civ.P., for lack of subject matter jurisdiction, and in opposition to plaintiffs' application for an order authorizing plaintiffs to deposit royalties in escrow during the pendency of this action.

3. The two patents in suit are Allied Chemical's patent 3,519,617 (the "'617 patent, which is entitled "RED PHENYL-AZO-NAPETHOL DYESTUFFS FOR EDIBLE COMPOSITIONS" and which issued July 7, 1970) and Allied Chemical's patent 3,640,733 (the "'733" patent, which is entitled "EDIBLE SUBSTRATES COLORED WITH

MONOAZO DYESTUFFS" and which issued February 8, 1972). True copies of the '617 and '733 patents are annexed hereto as Exhibits 1 and 2, respectively.

4. Claim 6 of the '617 patent is directed to the chemical composition of a red food color known as F.D. & C. Red No. 40 ("Red 40") and claim 7 of the '733 patent is directed to foods colored with Red 40.

5. Warner-Jenkinson and Kohnstamm instituted earlier litigation on January 24, 1972, when each filed a separate action for a declaratory judgment as to the validity, enforceability and infringement of Allied Chemical's '617 patent (H. Kohnstamm & Company, Inc. v. Allied Chemical Corporation, 72 Civ. 301 (WCC) and Warner-Jenkinson Company v. Allied Chemical Corporation, 72 Civ. 302 (WCC)). Each complaint included a claim for alleged unfair competition. By "amended" complaints served February 8, 1972, the day the '733 patent issued, Warner-Jenkinson and Kohnstamm broadened their declaratory judgment actions to include the '733 patent. Allied Chemical counterclaimed in each action for infringement of its two patents and the actions were ultimately consolidated.

6. Extensive discovery was taken. Over a three-year period, 27 witnesses were deposed and over 30,000 pages of documents were produced. A pretrial order was entered by Judge Conner in January 1975 and trial was set to commence on March 10, 1975. A true copy of the pretrial order entered by Judge Conner is annexed hereto as Exhibit 3.

7. Comprehensive pretrial briefs, glossaries, etc. were exchanged on February 21, 1975. Discovery had established that there was no serious issue as to plaintiffs' infringement of Allied Chemical's two patents, and that plaintiffs had willfully and deliberately begun to manufacture and sell Red 40 after Allied Chemical declined to grant either of them a license to do so.

8. Trial commenced on March 10, 1975. Each party assembled and had in readiness an array of fact and expert witnesses. Extensive files and exhibits were physically moved into Judge Conner's courtroom for use during trial. At the outset of trial, however, Judge Conner called counsel for the parties into his robing room, said that he had read the pretrial submissions of the parties, and actively initiated settlement discussions. There ensued a series of settlement meetings with Judge Conner, sometimes with counsel for both sides present, sometimes with counsel for only one side present, and sometimes with only officers of the parties present. As a result, on March 11, 1975 the parties agreed in principle to settle their controversy on the basis of a \$200,000 payment for past infringement and a royalty of 17-1/2% for continued manufacture, use and sale of Red 40.

9. The parties negotiated detailed settlement papers over the next four-month period. (The parties exchanged numerous drafts and, in an effort to resolve issues in controversy between the parties, an additional settlement conference was held by Judge Conner on May 9, 1975.) At first, Allied Chemical asked for a consent judgment. Plaintiffs declined to enter into a consent judgment with respect to defendant's two patents but agreed to a dismissal with prejudice as to plaintiffs' allegations of unfair competition, and agreed that the license agreements, which were to be entered into in connection with the dismissal without prejudice of plaintiffs' declaratory judgment actions, could not be terminated for two years.

10. The bargain ultimately struck between the parties is embodied in four documents:

- a. Stipulation and Order signed by Judge Conner on July 23, 1975 (true copy annexed hereto as Exhibit 4);
- b. Settlement Agreement, effective as of March 1, 1975, between Allied Chemical, Kohnstamm and Warner-Jenkinson (true copy annexed hereto as Exhibit 5);
- c. License Agreement, effective as of March 1, 1975 between Allied Chemical and Warner-Jenkinson (true copy annexed hereto as Exhibit 6); and
- d. License Agreement, effective as of March 1, 1975, between Allied Chemical and Kohnstamm (true copy annexed hereto as Exhibit 7).

11 In accord with these agreements, on July 23, 1975, Judge Conner dismissed, without prejudice, Warner-Jenkinson's and Kohnstamm's declaratory judgment actions and Allied Chemical's counterclaims with respect to the '617 and '733 patents, and dismissed, with prejudice, Warner-Jenkinson's and Kohnstamm's claims for alleged unfair competition.

12. The license agreements included customary provisions for termination by Allied Chemical in the event of non-performance by Warner-Jenkinson and Kohnstamm. To prevent plaintiffs from promptly reinstituting their actions, the license agreements specified that Warner-Jenkinson and Kohnstamm could not terminate their obligations to pay royalties for two years.

13. On January 19, 1976 the Commissioner of Food & Drugs gave notice of his intention to publish a regulation terminating the provisional listing of F.D. & C. Red 2 ("Red 2"). The order was signed on January 23, 1976 and was to become effective on publication in the Federal Register. Prior to publication, an action was commenced in the United States District Court for the District of Columbia, Certified Color Manufacturers Association et al. v. Mathews et al., No. 76-0153, to restrain

publication of the order. The regulation was published on February 10, 1976 (41 Fed. Reg. 5823), after the District Court declined to restrain publication. A stay, temporarily entered by the United States Court of Appeals for the District of Columbia Circuit, delayed until February 12, 1976 implementation of the regulation terminating the listing of Red 2 (41 Fed. Reg. 6774).

14. Annexed hereto as Exhibit 8 is a true copy of a March 15, 1976, license agreement entered into by Hilton-Davis Chemical Company (a division of Sterling Drug Inc.), in which, after the 1976 delisting of Red 2, Hilton-Davis agreed to pay to Allied Chemical \$100,000 plus a 17-1/2% royalty to manufacture, use and sell Red 40. Hilton-Davis paid the \$100,000 by check dated April 13, 1976.


William J. Gilbreth

Sworn to and subscribed
before me, a Notary Public,
this 28th day of July 1976.



FRANKLIN ERNEST SMITH
Notary Public, State of New York
No. 30-9062575
Qualified in Nassau County
Commission Expires March 30, 1978

EXHIBIT 1

[Annexed to foregoing Affidavit]

A-44

3,519,617
**RED PHENYL-AZO-NAPHTHOL DYESTUFFS
FOR EDIBLE COMPOSITIONS**
Gustav E. Rost, Hamburg, and Russell I. Steiner, Wil-
lamsville, N.Y., assignors to Allied Chemical Corpo-
ration, New York, N.Y., a corporation of New York
No Drawing. Filed May 15, 1967. Ser. No. 639,264
Int. Cl. C07c 1/00; A23J 1/27
U.S. Cl. 260-200 9 Claims

ABSTRACT OF THE DISCLOSURE

Monoazo compounds of this invention, which may be termed 1-((2-alkoxy-5-alkyl-4-sulfophenyl)azo)-2-naphthol-6-sulfonic acids and physiologically acceptable salts thereof are prepared by conventional procedures, e.g. coupling diazotized 5-alkoxy-2-alkyl-aniline, in alkaline media, into 2-naphthol-6-sodium sulfonate. The monoazo compounds of the invention are useful as dyestuffs for various substrates and especially for edible substrates, such as foodstuffs or pharmaceutical compositions.

This invention relates to the production of novel red monoazo dyestuffs. More particularly, the present invention is directed to highly soluble red monoazo dyestuffs and to their use as colorants, especially in dyeing of edible substrates.

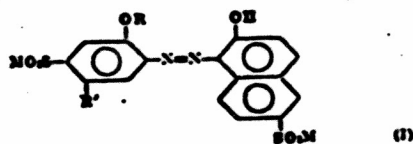
Certain red dyes have found use in the past in various coloring or dyeing applications, especially in the coloring of foodstuffs or other edible substrates. One such dyestuff (F.D. & C. Red No. 4) recently has been delisted for essentially all edible uses by the Food and Drug Administration, thereby creating a need for a red dye particularly useful in the coloring of edible substrates.

Accordingly, one object of the present invention is to provide new and useful dye compositions.

A further object of the present invention is to provide highly soluble non-toxic monoazo dye compositions which are useful in the coloring of edible substrates.

Other objects of this invention will be readily apparent to those skilled in the art from the following description.

The monoazo dyestuffs of the present invention correspond to the formula:



wherein R and R' are each lower alkyl containing from 1 to 6 carbon atoms and M is hydrogen, ammonium or a physiologically acceptable metal cation, such as sodium, potassium, barium calcium and iron. Preferred dyestuffs of the present invention are compounds conforming to above Formula I wherein R and R' are each methyl and M is sodium, potassium or ammonium because of the particularly low toxicity and high water solubility of such compounds; most preferred of the compounds of the present invention is the disodium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid. It is to be understood that mixed salts, such as the monosodium, monopotassium salts, as well as acid salts are contemplated as being within the present invention. Representa-

tive compounds of the present invention other than the aforementioned disodium salt include:

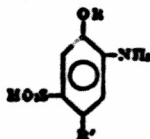
- 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- 1-((6-methoxy-4-sodiumsulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- dipotassium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- diammonium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- calcium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- barium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- ferrous salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-((6-ethoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-((6-propoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-((2-methoxy-5-ethyl-4-sulfophenyl)azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-((2-ethoxy-5-ethyl-4-sulfophenyl)azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-((2-propoxy-5-propyl-4-sulfophenyl)azo)-2-naphthol-6-sulfonic acid

As previously indicated, the dyestuffs of the present invention are essentially non-toxic to warm blooded animals and are sufficiently soluble in water to meet the requirements of the Food and Drug Administration as to tolerances governing dye content. For example, the disodium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid, one of the preferred dyes of the present invention, is soluble to the extent of about 18 parts per 100 parts of water at 2° C. Further, these dyestuffs are stable to sulfur dioxide in aqueous solutions, to hydrogen ions in aqueous solutions having a pH of 3 or higher, to ascorbic acid in concentrations ranging from about 50 to 100 p.p.m., which are commonly encountered in food preparations, as well as to heat such as that encountered in baking operations, e.g., 175° C. for 25 minutes. Additionally, when used to color soft drinks, these dyestuffs provide compositions which are essentially non-corrosive to beverage containers for periods of at least six months. The novel dyestuffs also possess excellent light stability in a variety of edible substrata and exhibit excellent renetive properties when contacted with such substrata.

These characteristics of the red monoazo dyestuffs of the present invention are indicative of their suitability as colorants for edible substrata, e.g., fruits, such as cherries; sugar patties; hard candies; gelatine desserts; soft drinks, both carbonated and uncarbonated; cake and cookie prepared mixes; as well as wrappings and printed labels which, in use, come in contact with these and other food compositions. These characteristics together with their extremely low toxicity to warm blooded animals, as determined by both acute and chronic feeding tests, indicate their value as an addition to the list of dyestuffs certifiable by the United States Government Food and Drug Administration. For example, acute feeding tests using the disodium salt of 1-((6-methoxy-4-sulfo-m-tolyl)azo)-2-naphthol-6-sulfonic acid have demonstrated that animals tolerate high levels of this dyestuff while chronic feeding tests involving additions of up to 50%, by weight, of this dyestuff to normal rations indicated no significant changes in the growth rate and food consumption of rats

as compared with a control group studied simultaneously.

Exemplary of the preferred method of preparation of the dyestuffs of the present invention, the disodium salt of 1-[(2-alkoxy-5-alkyl-4-sulphophenyl)azo]-2-naphthol-6-sulfonic acid may be prepared as follows: One part of a sulfanilic acid, corresponding to the formula:



wherein R and R' are each as above defined, is slurried in about 5 to 6 parts, by weight, of water and dissolved by the addition of about 1.0 to 1.2 parts, by weight, of 20° B ϕ . hydrochloric acid. The solution is cooled to about 0° C. by the addition of ice. To this, there is added slowly about 0.33 to 0.35 part of sodium nitrite (added as a 30% aqueous solution) and the mixture is agitated, at about 0° to 5° C., for at least one hour. The resulting diazonium salt solution is added slowly to an alkaline solution of Schaeffer's salt (2-hydroxy-naphthalene-6-sodium sulfonate) consisting of about 1.1 parts of Schaeffer's salt, 8 parts of water and 1 to 2 parts of sodium carbonate, the coupling solution being cooled to about 10° C. with added ice. The resulting mixture which is alkaline to Brilliant Yellow indicator and which contains an excess of Schaeffer's salt, is agitated for about 16 hours and then, after being heated to about 65° to 70° C., is salted to about 5 to 15% concentration by the addition of sodium chloride. The mixture is agitated for about two to eight hours as it cools to ambient temperature and the resulting slurry is filtered. The filter cake of the crude monoazo product is purified by dissolving it in about 5 to 6 parts, by weight, of warm (55° C.) water and adding to the solution about 0.5 part, by weight, of disodium phosphate. After being agitated at 55° to 65° C. for about 0.5 to 1 hour, about 0.25 to 1 part, by weight, of decolorizing charcoal and 0.25 to 1 part, by weight, of a filter aid is added and the mixture is filtered. The clarified filtrate is salted to precipitate the dyestuff as the disodium salt which is recovered by filtration from the saline mother liquor. The filter cake may be dried in conventional manner.

Other physiologically acceptable salts corresponding to above Formula I may be prepared by known procedures. For example, the alkaline coupling mixture may be rendered acid with a mineral acid, such as hydrochloric, sulfuric or nitric acid, and potassium hydroxide may be added to the resultant acid mixture to cause precipitation of the corresponding potassium salt; similarly, if ammonium hydroxide were to be added instead of potassium hydroxide at this stage, the corresponding ammonium salt would be obtained. Other physiologically acceptable salts may likewise be obtained by adding a soluble salt, for example, calcium chloride, barium chloride, ferrous sulfate, to the alkaline coupling mixture to cause the corresponding calcium, barium or ferrous salt to precipitate. The free acids, i.e., compounds of Formula I wherein M is hydrogen, are readily obtainable by neutralization of the alkaline coupling mixture, for example, with a mineral acid, thereby causing precipitation thereof from the neutralized coupling mixture; complete isolation of the free acids can be effected by extraction of the neutral to acid mass with a water-immiscible organic solvent, for example, diethylether, ethyl acetate, etc. and thereafter, evaporation of the solvent from the extract.

The term "edible substrata" as used in this specification and the claims appended hereto is intended to include a wide variety of food, pharmaceutical and cosmetic compositions. These may be in either solid or liquid form. Included also are wrappings and labels of various forms colored or printed thereon with inks containing these dyestuffs, which may come in contact with the material enclosed or labeled.

The addition of the dyestuffs of our invention to and incorporation in edible substrata is effected by methods well known in this art, for example, by methods conventionally used with F.D. & C. Red No. 4, and hence, detailed discussion of this collateral aspect of our invention is deemed unnecessary.

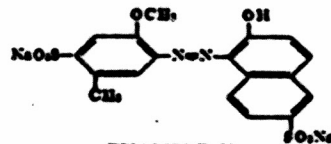
The following examples will serve to illustrate practice of the invention but they are not intended to limit it to the details described herein. Parts and percentages are by weight and temperatures are given in degrees centigrade, unless otherwise specified.

EXAMPLE I

To a slurry of 520 parts of 5-methoxy-2-methyl-sulfanilic acid in 3000 parts of water, 580 parts of 20° B ϕ . hydrochloric acid were added. The mixture was agitated for about 1/2 hour and the resulting solution was cooled to about 0° by the addition of ice. Then, 173 parts of sodium nitrate, in the form of a 30% aqueous solution, were added to the mass over a period of about 2 1/2 hours while maintaining the solution at or below 5°. The resulting mixture thereafter was agitated for about one and one quarter hours to complete the diazotization reaction.

In a separate vessel, 591 parts of Schaeffer's salt (2-naphthol-6-sodium sulfonate) were slurried in 400 parts of hot water and 600 parts of sodium carbonate, as a 20% aqueous solution, were added thereto. The mixture was heated to 65° and the resultant solution was cooled first to below 45° and then to about 10° by the addition of ice. The diazonium salt solution prepared above was slowly (over a period of about one hour) added to the Schaeffer's salt solution. The alkaline to Brilliant Yellow indicator coupling solution was agitated for about 16 hours and then was heated to between 65° and 70°. After the addition of 1800 parts of lime free sodium chloride, the mixture was agitated for four hours as it gradually cooled to ambient temperature and the resultant precipitate which formed was filtered from its mother liquor.

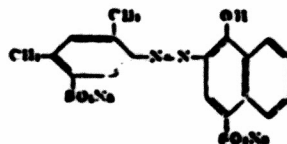
The filter cakes from two such couplings were combined and dissolved in 10,000 parts of warm (55°) water. To this solution 127 parts of anhydrous disodium phosphate were added and the mass was agitated at 65° to 75° for 1/2 hour. After the addition of 120 parts of decolorizing charcoal, the mass was agitated for 1/2 hour and 120 parts of filter aid material were added. The mixture was agitated for one hour and then filtered. To the clarified filtrate, 1500 parts of lime free sodium chloride were added slowly, and the mixture was agitated for about 16 hours to permit the mass to cool and the purified monoazo dyestuff to precipitate. The slurry was filtered and the filter cake was dried in a circulatory warm air oven. The solid product, the disodium salt of 1-[(6-methoxy-4-sulfo-m-tolyl)azo]-2-naphthol-6-sulfonic acid, corresponds to the formula:



EXAMPLE II

The surprising solubility in water of dyestuffs of the present invention is demonstrated by the following data wherein the solubility of the dyestuff prepared in Example I, above, was compared at various temperatures with that of F.D. & C. Red #4.

The latter has the formula:



5

The tests were carried out as follows:

An excess quantity of the dyestuff was incrementally added to 25 parts of distilled water, shaking after each addition. The vessel was placed in a constant temperature bath maintained at a predetermined temperature. The resulting saturated solution was permitted to stand for several hours in the constant temperature bath and then filtered. A 5 part aliquot of the filtered solution was evaporated to dryness in a tared crucible at 130°. From the weight of the residue, the solubility of the dye in distilled water at the indicated temperature is determined. These comparative data are given in Table I below.

TABLE I.—SOLUBILITY IN DISTILLED WATER

Temp. (deg.)	F.D. & C. Red #4, percent	Product of Ex. 1, percent
1	4.5	18.0
25	7.4	22.0
50	8.6	26.4

The significantly greater solubility in water of the dyestuff of Example I compared to that of F.D. & C. Red #4 is surprising since both dyes have two solubilizing groups and are quite similar structurally and hence should possess a solubility character in the same general area, as is indeed the fact when the solubility of these two dyestuffs is compared in 100% ethanol and 50% aqueous ethanol at 25°, the solubility being, in each instance, trace and 1.3% respectively.

EXAMPLE III

Maraschino cherries which had been dyed with F.D. & C. Red #4 and with the dyestuff prepared in Example I were stored for two months in light sugar syrup containing about 200 p.p.m. of SO₂ at ambient temperature. The cherries were placed on white filter paper and examined. Those dyed with F.D. & C. Red #4 possessed a bright yellow-red shade and produced a slight red bleed on the filter paper. Those cherries dyed with the dyestuff of this invention were slightly duller in shade but yielded practically no bleed onto the white filter paper, indicating that it was superior in this respect to F.D. & C. Red #4.

This characteristic was again demonstrated by placing half and whole cherries in contact with pear halves in light sugar syrup (such as is used in the conventional fruit cocktail preparation). After five days the fruits were examined. The pears stored with cherries dyed with F.D. & C. Red #4 were colored a strong pink indicating that the dye had bled off from the cherries. The pears stored with the cherries dyed with dyestuff of Example I were a yellow pink in shade indicating a light "on tone" yellow-pink bleed, which is generally more acceptable than the shade imparted by the F.D. & C. Red #4.

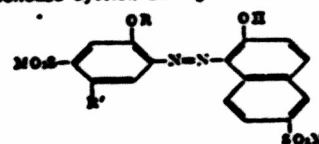
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It can thus be seen that valuable and highly desirable red monoazo dyestuffs which are substantially non-toxic to warm blooded animals and edible substrata colored therewith have been provided. The new dyestuffs are characterized also by surprisingly excellent solubility in water.

Our invention has been described and illustrated by reference to specific embodiments thereof, and the examples illustrate the best mode presently known of carrying out the invention. It should be noted, however, that variations of these procedures are feasible and many such variations will be obvious to those skilled in this art in view of the disclosures contained herein.

We claim:

1. A monoazo dyestuff having the formula



wherein R and R' are each lower alkyl and M is hydrogen, ammonium or a physiologically acceptable metal cation.

2. The monoazo dyestuff of claim 1 wherein R is lower alkyl and R' is methyl.

3. The monoazo dyestuff of claim 1 wherein R is methyl and R' is lower alkyl.

4. The monoazo dyestuff of claim 1 wherein R and R' are each methyl.

5. The monoazo dyestuff of claim 4 wherein M is an alkali metal.

6. The monoazo dyestuff of claim 4 wherein M is sodium.

7. The monoazo dyestuff of claim 4 wherein M is potassium.

8. The monoazo dyestuff of claim 4 wherein M is ammonium.

9. The monoazo dyestuff of claim 4 wherein M is hydrogen.

References Cited

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3,046,141 7/1962 Long 260-197

CHARLES B. PARKER, Primary Examiner

C. F. WARREN, Assistant Examiner

U.S. Cl. X.R.

8-41; 99-148; 260-999

PD-1050
(5/66)

UNITED STATES PATENT OFFICE
CERTIFICATE OF CORRECTION

Patent No. 3,519,617 Dated July 7, 1970

Inventor(s) Gustav E. Rast and Russell I. Steiner

It is certified that error appears in the above-identified patent and that said Letters Patent are hereby corrected as shown below:

Column 1, line 57, "barium calcium" should be -- barium, calcium--

Column 1, line 59, "Formula I" should be -- Formula (I) --;

Column 2, line 19, "1([6-propoxy-4-sulfo-m-tolyl]azo)-" should be -- 1-([6-propoxy-4-sulfo-m-tolyl]azo)- --;

Column 2, line 22, "1([2-methoxy-5-ethyl-4-sulfohenyl])" should be -- 1-([2-methoxy-5-ethyl-4-sulfohenyl]) --;

Column 3, line 2, "Exemplary" should be -- Exemplary--;

Column 3, line 18, "Be." should be -- Be --;

Column 3, line 46, "Formula I" should be -- Formula (I) --;

Column 3, line 59, "Formula I" should be -- Formula (I) --;

Column 4, line 14, "520" should be -- 521 --;

Column 4, line 15, "Be." should be -- Be --;

Column 4, line 19, "nitrate" should be -- nitrite --;

Column 4, 2nd. formula -- (C.I. #14700) -- should be inserted to the right of formula.

Signed and sealed this 26th day of September 1972.

(SEAL)
Attest:

EDWARD M. FLETCHER, JR.
Attesting Officer

ROBERT GOTTSCHALK
Commissioner of Patents

EXHIBIT 2

[Annexed to foregoing Affidavit]

United States Patent

Rast et al.

[15] 3,640,733

[45] Feb. 8, 1972

[54] EDIBLE SUBSTRATES COLORED WITH MONOAZO DYESTUFFS

[72] Inventors: Gustav E. Rast, Hamburg; Russell L. Steiner, Williamsport, both of N.Y.

[73] Assignee: Allied Chemical Corporation, New York, N.Y.

[22] Filed: Dec. 10, 1969

[21] Appl. No.: 880,516

Related U.S. Application Data

[62] Division of Ser. No. 639,264, May 18, 1967, abandoned.

[52] U.S. Cl. _____ 99/148, 99/103

[51] Int. Cl. _____ A23J 1/26

[58] Field of Search _____ 99/103, 148

[56]

References Cited

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Primary Examiner—Raymond N. Jones

Assistant Examiner—J. M. Hunter

Attorney—Michael S. Jarom

[57]

ABSTRACT

Monoazo compounds of this invention, which may be termed 1-[(2-alkoxy-5-alkyl-4-sulfo)phenyl]azo-2-naphthol-6-sulfonic acids and physiologically acceptable salts thereof are used as dyestuffs for various substrates and especially for edible substrates, such as maraschino cherries.

10 Claims, No Drawings

EDIBLE SUBSTRATES COLORED WITH MONOAZO DYE STUFFS

This application is a division of application Ser. No. 809,764, filed May 18, 1967, now U.S. Pat. 3,519,617 issued July 18, 1970.

The invention relates to the production of novel red monoazo dye stuffs. More particularly, the present invention is directed to highly soluble red monoazo dye stuffs and to their use as colorants, especially in dyeing of edible substrates.

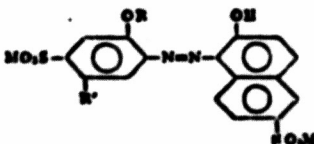
Certain red dyes have found use in the past in various coloring or dyeing applications, especially in the coloring of food-stuffs or other edible substrates. One such dye stuff (FD&C Red No. 4) recently has been delisted for essentially all edible uses by the Food and Drug Administration, thereby creating a need for a red dye particularly useful in the coloring of edible substrates.

Accordingly, one object of the present invention is to provide new and useful dye compositions.

A further object of the present invention is to provide highly soluble nontoxic monoazo dye compositions which are useful in the coloring of edible substrates.

Other objects of this invention will be readily apparent to those skilled in the art from the following description.

The monoazo dye stuffs of the present invention correspond to the formula:



wherein R and R' are each lower alkyl containing from one to six carbon atoms and M is hydrogen, ammonium or a physiologically acceptable metal cation, such as sodium, potassium, barium, calcium and iron. Preferred dye stuffs of the present invention are compounds conforming to above formula (I) wherein R and R' are each methyl and M is sodium, potassium or ammonium because of the particularly low toxicity and high water solubility of such compounds; most preferred of the compounds of the present invention is the disodium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid. It is to be understood that mixed salts, such as the monosodium, monopotassium salts, as well as acid salts are contemplated as being within the present invention. Representative compounds of the present invention other than the aforementioned disodium salt include:

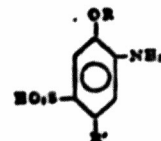
- 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- 1-([6-methoxy-4-sodiumsulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- dipotassium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- diammonium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- calcium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- barium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- ferrous salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- dinodium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-([6-propoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-([2-methoxy-5-ethyl-4-sulfo-phenyl]azo)-2-naphthol-6-sulfonic acid
- disodium salt of 1-([2-propoxy-5-propyl-4-sulfo-phenyl]azo)-2-naphthol-6-sulfonic acid

As previously indicated, the dye stuffs of the present invention are essentially nontoxic to warmblooded animals and are

sufficiently soluble in water to meet the requirements of the Food and Drug Administration as to tolerances governing dye content. For example, the disodium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid, one of the preferred dye stuffs of the present invention, is soluble to the extent of about 18 parts per 100 parts of water at 2° C. Further, these dye stuffs are stable to sulfur dioxide in aqueous solutions, to hydrogen ions in aqueous solutions having a pH of 3 or higher, to ascorbic acid in concentrations ranging from about 50 to 100 p.p.m., which are commonly encountered in food preparations, as well as to heat such as that encountered in baking operations, e.g., 175° C. for 25 minutes. Additionally, when used to color soft drinks, these dye stuffs provide compositions which are essentially noncorrosive to beverage containers for periods of at least 6 months. The novel dye stuffs also possess excellent light stability in a variety of edible substrates and exhibit excellent retentive properties when contacted with such substrates.

These characteristics of the red monoazo dye stuffs of the present invention are indicative of their suitability as colorants for edible substrates, e.g., fruits, such as cherries, sugar pappies, hard candies, gelatin desserts, soft drinks, both carbonated and uncarbonated; cake and cookie prepared mixes, as well as wrappings and printed labels which, in use, come in contact with these and other food compositions. These characteristics together with their extremely low toxicity to warmblooded animals, as determined by both acute and chronic feeding tests, indicate their value as an addition to the list of dye stuffs certifiable by the United States Government Food and Drug Administration. For example, acute feeding tests using the disodium salt of 1-([6-methoxy-4-sulfo-m-tolyl]azo)-2-naphthol-6-sulfonic acid have demonstrated that animals tolerate high levels of this dye stuff while chronic feeding tests involving additions of up to 5.0 percent, by weight, of this dye stuff to normal rations indicated no significant changes in the growth rate and food consumption of rats as compared with a control group studied simultaneously.

Exemplary of the preferred method of preparation of the dye stuffs of the present invention, the disodium salt of 1-([2-methoxy-5-ethyl-4-sulfo-phenyl]azo)-2-naphthol-6-sulfonic acid may be prepared as follows. One part of a sulfanilic acid, corresponding to the formula:



wherein R and R' are each as above defined, is slurried in about 5 to 6 parts, by weight, of water and dissolved by the addition of about 1.0 to 1.2 parts, by weight, of 20° B. hydrochloric acid. The solution is cooled to about 0° C. by the addition of ice. To this, there is added slowly about 0.33 to 0.35 parts of sodium nitrite (added as a 30 percent aqueous solution) and the mixture is agitated, at about 0° to 5° C., for at least 1 hour. The resulting diazonium salt solution is added slowly to an alkaline solution of Schaeffer's Salt (2-hydroxy-naphthalene-6-sodium sulfonate) consisting of about 1.1 parts of Schaeffer's Salt, 8 parts of water and 1 to 2 parts of sodium carbonate, the coupling solution being cooled to about 10° C. with added ice. The resulting mixture which is alkaline to Methyl Yellow Indicator and which contains an excess of Schaeffer's Salt, is agitated for about 16 hours and then after being heated to about 65° to 70° C., is diluted to about 5 to 14 percent concentration by the addition of sodium chloride. The mixture is agitated for about 2 to 8 hours at room temperature and the resulting slurry is filtered. The filter cake of the crude monoazo product is purified by dissolving it in about 5 to 6 parts, by weight, of warm (55° C.) water and adding to the solution about 0.5 part, by weight, of disodium phosphate.

After being agitated at 55° to 65° C. for about 0.5 to 1 hour, about 0.25 to 1 part, by weight, of decolorizing charcoal and 0.25 to 1 part, by weight, of a filter aid is added and the mixture is filtered. The clarified filtrate is salted to precipitate the dyestuff as the disodium salt which is recovered by filtration from the saline mother liquor. The filter cake may be dried in conventional manner.

Other physiologically acceptable salts corresponding to above formula (I) may be prepared by known procedures. For example, the alkaline coupling mixture may be rendered acid with a mineral acid, such as hydrochloric, sulfuric or nitric acid, and potassium hydroxide may be added to the resultant acid mixture to cause precipitation of the corresponding potassium salt; similarly, if ammonium hydroxide were to be added instead of potassium hydroxide at this stage, the corresponding ammonium salt would be obtained. Other physiologically acceptable salts may likewise be obtained by adding a soluble salt, for example, calcium chloride, barium chloride, ferrous sulfate, to the alkaline coupling mixture to cause the corresponding calcium, barium or ferrous salt to precipitate. The free acids, i.e., compounds of formula (I) wherein M is hydrogen, are readily obtainable by neutralization of the alkaline coupling mixture, for example, with a mineral acid, thereby causing precipitation thereof from the neutralized coupling mixture; complete isolation of the free acids can be effected by extraction of the neutral to acid mass with a water-immiscible organic solvent, for example, diethylether, ethyl acetate, etc., and thereafter, evaporation of the solvent from the extract.

The term "edible substrate" as used in this specification and the claims appended hereto is intended to include a wide variety of food, pharmaceutical and cosmetic compositions. These may be in either solid or liquid form. Included also are wrappings and labels of various forms colored or printed thereon with inks containing these dyestuffs, which may come in contact with the material enclosed or labeled.

The addition of the dyestuffs of our invention to and incorporation in edible substrate is effected by methods well known in this art, for example, by methods conventionally used with FD&C Red No. 4, and hence, detailed discussion of this collateral aspect of our invention is deemed unnecessary.

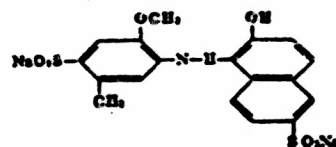
The following examples will serve to illustrate practice of the invention but they are not intended to limit it to the details described herein. Parts and percentages are by weight and temperatures are given in degrees Centigrade, unless otherwise specified.

EXAMPLE I

To a slurry of 521 parts of 5-methoxy-2-methyl-sulfanilic acid in 3,000 parts of water, 580 parts of 20° B. hydrochloric acid were added. The mixture was agitated for about 4 and the resulting solution was cooled to about 0° by the addition of ice. Then, 173 parts of sodium nitrite, in the form of a 30 percent aqueous solution, were added in the mass over a period of about 1/2 hour while maintaining the solution at or below 5°. The resulting mixture thereafter was agitated for about one and one quarter hours to complete the diazotization reaction.

In a separate vessel, 591 parts of Schaeffer's Salt (2-naphthol-6-sodium sulfonate) were slurried in 4,000 parts of hot water and 600 parts of sodium carbonate, as a 20 percent aqueous solution, were added thereto. The mixture was heated to 65° and the resultant solution was cooled first to below 45° and then to about 10° by the addition of ice. The diazonium salt solution prepared above was slowly (over a period of about 1 hour) added to the Schaeffer's Salt solution. The alkaline to brilliant yellow indicator coupling solution was agitated for about 10 hours and then was heated to between 65° and 70°. After the addition of 1,500 parts of lime-free sodium chloride, the mixture was agitated for 4 hours as it gradually cooled to ambient temperature and the resultant precipitate which formed was filtered from its mother liquor.

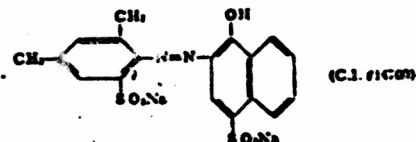
The filter cakes from two such couplings were combined and dissolved in 10,000 parts of warm (55°) water. To this solution 127 parts of anhydrous disodium phosphate were added and the mass was agitated at 65° to 75° for 1/2 hour. After the addition of 120 parts of decolorizing charcoal, the mass was agitated for 1/2 hour and 120 parts of filter aid material were added. The mixture was agitated for 1 hour and then filtered. To the clarified filtrate, 1,500 parts of lime-free sodium chloride were added slowly, and the mixture was agitated for about 16 hours to permit the mass to cool and the purified monoazo dyestuff to precipitate. The slurry was filtered and the filter cake was dried in a circulatory warm air oven. The solid product, the disodium salt of 1-[(6-methoxy-4-sulfonamethyl)azo]-2-naphthol-6-sulfonic acid, corresponds to the formula:



EXAMPLE II

The surprising solubility in water of dyestuffs of the present invention is demonstrated by the following data wherein the solubility of the dyestuff prepared in Example I, above, was compared at various temperatures with that of FD&C Red No. 4.

The latter has the formula:



The tests were carried out as follows:

An excess quantity of the dyestuff, was incrementally added to 25 parts of distilled water, shaking after each addition. The vessel was placed in a constant temperature bath maintained at a predetermined temperature. The resulting saturated solution was permitted to stand for several hours in the constant temperature bath and then filtered. A 5-part aliquot of the filtered solution was evaporated to dryness in a tared crucible at 130°. From the weight of the residue, the solubility of the dye in distilled water at the indicated temperature is determined. These comparative data are given in Table I below.

TABLE I

Temp.	Solubility in Distilled Water FD&C Red No. 4	Product of Ex. I
2°	4.0%	18.0%
25°	7.0%	22.0%
60°	8.0%	26.0%

The significantly greater solubility in water of the dyestuff of Example I compared to that of FD&C Red No. 4 is surprising since both dyes have two solubilizing groups and are quite similar structurally and hence should possess a solubility character in the same general area, as is indeed the fact when the solubility of these two dyestuffs is compared in 100 percent ethanol and 50 percent aqueous ethanol at 25°, the solubility being, in each instance, trace and 1.3 percent respectively.

EXAMPLE III

Maraschino cherries which had been dyed with FD&C Red No. 4 and with the dyestuff prepared in Example I were stored for 2 months in light sugar syrup containing about 200 p.p.m. of SO_2 at ambient temperature. The cherries were placed on white filter paper and examined. Those dyed with FD&C Red No. 4 possessed a bright yellow-red shade and produced a slight red bleed on the filter paper. Those cherries dyed with the dyestuff on this invention were slightly duller in shade but yielded practically no bleed onto the white filter paper, indicating that it was superior in this respect to FD&C Red No. 4.

This characteristic was again demonstrated by placing half and whole cherries in contact with pear halves in light sugar syrup (such as is used in the conventional fruit cocktail preparation). After 5 days the fruits were examined. The pears stored with cherries dyed with FD&C Red No. 4 were colored a strong pink indicating that the dye had bled off from the cherries. The pears stored with the cherries dyed with dyestuff of Example I were a yellow pink in shade indicating a light "on tone" yellow-pink bleed, which is generally more acceptable than the shade imparted by the FD&C Red No. 4.

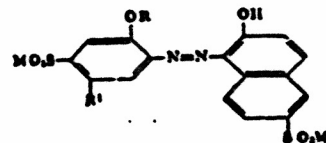
It can thus be seen that valuable and highly desirable red monoazo dyestuffs which are substantially nontoxic to warm-blooded animals and edible substrata colored therewith have been provided. The new dyestuffs are characterized also by surprisingly excellent solubility in water.

Our invention has been described and illustrated by reference to specific embodiments thereof, and the examples illustrate the best mode presently known of carrying out the invention. It should be noted, however, that variations of these procedures are feasible and many such variations will be obvious to those skilled in this art in view of the disclosures con-

tained herein.

We claim:

1. A composition comprising an edible substrate colored with a monoazo dyestuff having the formula



wherein R and R' are each lower alkyl and M is hydrogen, ammonium or a physiologically acceptable metal cation

2. A composition as described in claim 1 wherein the edible substrate is a fruit.

3. A composition as described in claim 2 wherein the fruit is a Maraschino cherry.

4. A composition as described in claim 1 wherein R is methyl and R' is lower alkyl.

5. A composition as described in claim 1 wherein R is lower alkyl and R' is methyl.

6. A composition as described in claim 1 wherein R and R' are each methyl.

7. A composition as described in claim 6 wherein M is sodium.

8. A composition as described in claim 4 wherein the edible substrate is a Maraschino cherry.

9. A composition as described in claim 5 wherein the edible substrate is a Maraschino cherry.

10. A composition as described in claim 6 wherein the edible substrate is a Maraschino cherry.

UNITED STATES PATENT OFFICE
CERTIFICATE OF CORRECTION

Patent No. 3,640,733 Dated February 8, 1972

Inventor(s) Gustav E. Rast and Russell I. Steiner

It is certified that error appears in the above-identified patent and that said Letters Patent are hereby corrected as shown below:

- Col. 1, line 20 "nontoxic" should be -- non-toxic --;
- Col. 1, line 39 "IS" should be -- is --;
- Col. 1, line 43 "4-solfo-" should be -- 4-sulfo- --;
- Col. 1, line 49 "nanthol-4-6sulfonic" should be
-- naphthol-6-6 sulfonic --;
- Col. 1, line 60 "azo)-2" should be -- azo)-2- --;
- Col. 1, line 62 "azo)-2" should be -- azo)-2- --;
- Col. 1, line 69 "-2naphthol" should be -- -2-naphthol --;
- Col. 1, line 75 "nontoxic" should be -- non-toxic --;
- Col. 2, line 14 "noncorrosive" should be -- non-corrosive --;
- Col. 2, line 41 "-2-nanthhol" should be -- -2-naphthol --;
- Col. 2, line 42 "follows:" should be -- follows: --;
- Col. 2, line 56 "20°B." should be -- 20°Re' --;
- Col. 2, line 68 "then after" should be -- then, after --;
- Col. 2, line 75 "9.5 part," should be -- 0.5 part, --;
- Col. 3, line 53 "20°B." should be -- 20°Re' --;

EXHIBIT 3

[Annexed to foregoing Affidavit]

Pretrial Order

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X
H. KOHNSTADT & COMPANY, INC., :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

CIVIL ACTION

NO. 72 Civ. 301 (WCC)

(CONSOLIDATED)

-----X
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

CIVIL ACTION

NO. 72 Civ. 302 (WCC)

-----X
PRE-TRIAL ORDER

I. Nature Of The Controversy

1. Each of these consolidated actions includes two causes of action; first, a declaratory judgment cause of action as to validity, enforceability, and infringement by plaintiffs of two United States patents owned by defendant and, second, an unfair competition cause of action. Defendant has denied plaintiffs' averments that the two patents in suit are invalid, unenforceable, and not infringed by plaintiffs; has denied that defendant has competed unfairly; and has counterclaimed against each plaintiff for infringement of the two patents in suit. Plaintiffs have denied defendant's infringement averments.

2. The patents in suit are Rast and Steiner patent 3,519,617, entitled RED PHENYL-AZO-NAPHTHOL DYESTUFFS FOR LIBLE COMPOSITIONS, and Rast and Steiner patent 3,640,733, entitled

EDIBLE SUBSTRATIVES COLORED WITH MONOAZO DYE STUFFS.

3. Defendant's charges of infringement at trial will be limited to claim 6 of patent 3,519,617 and claim 7 of patent 3,640,733. Plaintiffs' charges of invalidity and unenforceability will be directed to all claims of both patents.

4. Determination of the issue of quantum of damages is reserved for separate accounting proceedings, to be held, to the extent necessary, after the issues framed herein are determined.

II. Procedural Background

5. Each of these declaratory judgment actions was instituted on January 24, 1972. An amended complaint was served in each action on February 8, 1972, an answer and an infringement counterclaim were served on March 8, 1972, and a reply was served on March 27, 1972.

6. On April 3, 1973, defendant moved for leave to amend its counterclaim in Civil Action No. 72 Civ. 302 to charge The Seven-Up Company, plaintiff Warner-Jenkinson's parent corporation, with infringement of the two patents in suit. Leave was granted on October 9, 1973, notwithstanding Warner-Jenkinson's objection that venue was improper as to Seven-Up.

7. Seven-Up was served with defendant's amended counterclaim on November 28, 1973. On December 26, 1973, Seven-Up moved to dismiss for lack of venue. The Court granted Seven-Up's venue motion on March 20, 1974 transferred the action against it to the Eastern District of Missouri. On June 12, 1974, the Eastern District of Missouri action was set for trial on October 29, 1974. Upon the consent of parties, on July 3, 1974, the

Eastern District of Missouri action was ordered dismissed without prejudice.

8. On March 29, 1974, this Court granted defendant's motions to consolidate these actions for all purposes.

9. Trial of these consolidated actions is set to commence on March 3, 1975. The parties have waived their right to trial by jury.

III. Jurisdiction And Venue

10. As to each plaintiff's first cause of action relating to patents 3,519,617 and 3,640,733, jurisdiction over the subject matter is conferred by 28 U.S.C. §§1338(a), 2201 and 2202, and venue is proper under 28 U.S.C. §1391(c).

11. As to each plaintiff's cause of action for unfair competition, jurisdiction over the subject matter is proper pursuant to the provisions of 28 U.S.C. §1338(b) and venue is proper pursuant to 28 U.S.C. §1391(c).

12. Subject matter jurisdiction for defendant's counterclaims for patent infringement filed against each plaintiff is proper under 28 U.S.C. §1338(a). The counterclaims arise out of the transactions or occurrences that are the subject matter of the plaintiffs' Amended Complaint and do not require for their adjudication the presence of third parties of whom the Court cannot acquire jurisdiction. Accordingly, jurisdiction and venue for the adjudication of the counterclaims is also proper.

IV. Undisputed Facts

The following facts are undisputed and will require no proof at trial:

13. Plaintiff Warner-Jenkinson Company is a Missouri corporation having its principal place of business at 2526 Baldwin Street, St. Louis, Missouri.

14. Plaintiff H. Kohnstamm & Company, Inc. is a New York corporation having a place of business and doing business at 151 Avenue of the Americas, New York, New York.

15. Defendant Allied Chemical Corporation is a New York corporation having an office at 1411 Broadway, New York, New York.

16. Patent 3,519,617 was issued to defendant on July 7, 1970, as assignee of Gustav E. Rast and Russell I. Steiner. The application, Serial Number 639,264, for that patent was filed on May 18, 1967.

17. Patent 3,640,733 was issued to defendant on February 8, 1972, as assignee of Gustav E. Rast and Russell I. Steiner. The application, Serial Number 880,516 (a division of Serial 639,264), for that patent was filed on December 10, 1969, and is based upon the same and original disclosure as is in patent 3,519,617.

18. Defendant is and always has been the owner of all right and title to each of patents 3,519,617 and 3,640,733, including the right to recover for infringement thereof.

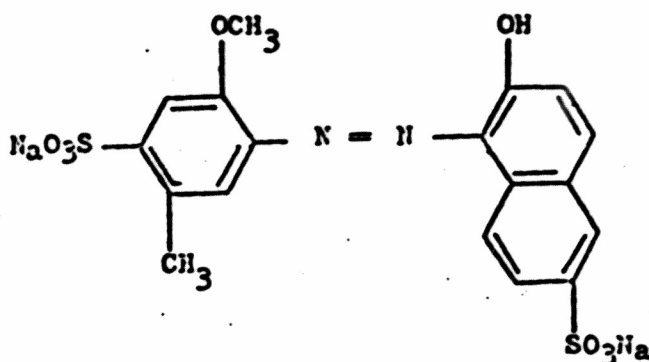
19. Prior to the commencement of these actions, defendant had asserted to plaintiffs that the manufacture, use or sale of F.D.&C. Red No. 40 without the authority of defendant would constitute an infringement of its patent 3,519,617.

20. In about the early part of 1971 plaintiffs individually and separately requested from defendant licenses to manufacture F.D.&C. Red No. 40 under defendant's patent 3,519,617. Plaintiffs subsequently requested licenses under defendant's patent 3,640,733. Defendant declined to grant any licenses.

21. F.D.&C. Red No. 40, a color additive for food use, was listed by the Food & Drug Administration as a food color on April 10, 1971 (36 F.R. §6892). The use of F.D.&C. Red No. 40 in the United States is regulated by the Food & Drug Administration pursuant to the Federal Food, Drug and Cosmetic Act, 21 U.S.C. §376.

22. On one or more occasions during the period July 7, 1970 to date, including the period February 8, 1972 to date, plaintiffs have: manufactured for sale commercial quantities of the chemical compound claimed in claim 6 of patent 3,519,617; actively solicited orders for the sale of food grades of that compound; had commercial quantities of that compound certified as F.D.&C. Red No. 40 by the United States Food and Drug Administration; sold commercial quantities of that compound as F.D.&C. Red No. 40; and used quantities of that compound to combine with food-grade dyestuffs offered for sale and sold by plaintiffs for combination with edible substrates. During the above periods plaintiffs' customers have colored edible substrates with F.D.&C. Red No. 40 manufactured and sold by plaintiffs. Plaintiffs knew, when they sold F.D.&C. Red No. 40 manufactured by them, that it was to be used by their customers to color edible substrates. In addition, plaintiff Kohnstamm has used quantities of that compound to combine with flavors offered for sale and sold by Kohnstamm for combination with edible substrates.

The chemical compound which plaintiffs have manufactured and have sold as F.D.&C. Red No. 40 has the following chemical formula:



Nothing herein shall be construed to limit or restrict any party from adducing proof of the date and/or sequence of any of the above facts.

23. Plaintiffs had knowledge of patent 3,519,617 prior to commencing their manufacture of F.D.&C. Red No. 40, had knowledge of the existence of defendant's application for patent 3,640,733, and became aware of patent 3,640,733 on or about the day it was issued.

24. Some customers of plaintiffs have refused to purchase F.D.&C. Red No. 40, made by plaintiffs, without indemnification against patent infringement and plaintiffs have provided such indemnification to induce such purchases.

25. Defendant manufactures and sells F.D.&C. Red No. 40 to its distributors and to others.

26. Defendant has named three distributors for F.D.&C. Red No. 40: Heumann, Buslee & Wolfe, Inc.; Virginia Dare Extract Company; and Leeban Color & Chemical Company, Inc.

27. The parties will submit to the Court, by February 21, 1975, a joint glossary of chemical and biological terms and nomenclatures which among others may be used at trial.

V. Disputed Issues Of Fact

The following issues of fact are disputed and will be the subject of proof at trial:

28. The nature and scope of the need, if any, for a red food color prior to the making of the alleged inventions of the patents in suit.

29. The nature and scope of attempts, if any, to satisfy such a need.

30. The making of the alleged inventions of the patents in suit.

31. The scope and content of the prior art at the time the alleged inventions were made.

32. The differences, if any, between the prior art and the alleged inventions.

33. The level of ordinary skill in the pertinent art at the time the alleged inventions were made.

34. Whether German Patent 12,451 (issued 1879) describes the subject matter claimed in United States Patent No. 3,519,617.

35. Whether or not the differences between the subject matter claimed in patents 3,519,617 and 3,640,733 and any one or more primary references in view of any one or more secondary references* are such that the subject matter of the patents in suit, as a whole, would have been obvious at the time the inventions were made to a person having ordinary skill in the art to which said subject matter pertains (35 U.S.C. §103)?

36. The commercial success, if any, of the alleged inventions.

37. The manners in which plaintiffs and defendant have made, used, offered for sale, or sold the alleged inventions.

38. Whether plaintiffs have made, used, offered for sale, sold, or actively induced others to make, use, offer for sale or sell the alleged invention, or the equivalent, of claim 7 of patent 3,640,733.

39. Whether defendant misrepresented facts to, concealed facts from, or failed to bring facts to the attention of, the United States Patent Office during prosecution of the applications for the patents in suit.

40. The circumstances relating to plaintiffs' requests for, and defendant's refusal to grant, manufacturing licenses under the patents in suit.

41. The circumstances relating to plaintiffs' institution and prosecution of the present actions.

* Such references shall be those of which plaintiffs have given defendant notice in accordance with 35 U.S.C. §282.

VI. Disputed Issues of Law

The following issues of law are to be litigated upon the trial:

42. Whether the patents in suit satisfy the criteria for patent validity embodied in 35 U.S.C. §§102 and 103?

43. Whether the patents in suit comply with the requirements of 35 U.S.C. §112 concerning patent specifications and claims.

44. Whether plaintiffs have infringed the asserted claims, within the meaning of 35 U.S.C. §271.

45. Whether the patents in suit are unenforceable because of:

- a. Defendant's conduct before the United States Patent Office during prosecution of the applications for the patents in suit;
- b. Defendant's policies and practices with respect to the sale of F.D.&C. Red No. 40; or
- c. Defendant's policies and practices with respect to the patents in suit.

46. Whether defendant's policies and practices with respect to the sale of F.D.&C. Red No. 40, or its policies and practices respecting the patents in suit constitute unfair competition with respect to plaintiffs.

47. Whether defendant is entitled to an injunction against further infringement by plaintiffs and each of them, pursuant to 35 U.S.C. §293.

48. Whether plaintiffs are entitled to an award of damages, to an award of attorney's fees under 35 U.S.C. §285 or under any other applicable law, or to an injunction against further unfair competition by defendant.

49. Whether defendant is entitled to an award of increased damages or to an award of attorney's fees, pursuant to 35 U.S.C. §§284 or 285.

VII. Unavailable Witnesses

50. Plaintiffs represent that, at all times subsequent to defendant's December 22, 1972 notice of his deposition, Samuel Zuckerman has been too ill to testify.

51. Defendant represents that:

- a. F. W. Cashion, who died on May 5, 1974 after a long-term illness, has been unable to testify at all times subsequent to plaintiffs' March 12, 1974 notice of his deposition.
- b. Monroe D. Edelman died on December 11, 1973, and thus has been unable to testify at all times subsequent to plaintiffs' January 22, 1974 inquiry as to his availability as a witness.
- c. At all times subsequent to plaintiffs' December 13, 1973 notice of his deposition, Gustav E. Rast has been too ill to testify.

52. Plaintiffs had taken depositions of defendant relating to Messrs. Cashion, Edelman and Rast pursuant to Rule 30(b)(6), Fed. R. Civ. P.

VIII. Stipulations Concerning Documentary Evidence

The parties stipulate that:

53. If otherwise admissible, uncertified printed, photostatic or other copies of United States and foreign patents, including United States Patent Office applications and file wrappers and/or contents thereof, may be introduced into evidence with the same force and effect as if the originals and certified copies thereof had been introduced, and the dates appearing on such uncertified copies shall be accepted, prima facie, as correct, subject to correction should error appear.

54. If otherwise admissible, uncertified photostatic or other copies of printed publications or portions thereof may be introduced into evidence by any party in lieu of the originals or certified copies thereof, with the same force and effect as the originals or certified copies thereof, and all dates of publication appearing on such uncertified copies shall be accepted, prima facie, as correct, subject to correction should error appear.

55. Legible photostats or other copies of documents or portions thereof, may be marked for identification, and offered and received in evidence at the trial with the same force and effect as the originals, subject to correction should error appear and subject to any and all objections as could be made to the original thereof, and on condition that the original of any such copy be available for inspection at the trial upon reasonable notice, it being the intention of the parties, however, that the inspection of the originals will not be required in the absence of special circumstances.

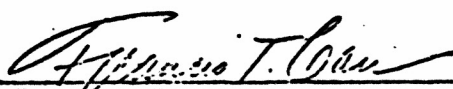
56. If otherwise admissible, any letter, memorandum, communication, or other document produced before trial by any party to an adverse party, which is signed by any person who was at the time of signing an employee or officer of the party making production, or whose signature by such employee or officer is indicated by typewritten or handwritten name or initials may be offered in evidence without formal proof as to the genuineness of such document and shall be deemed, prima facie, to have been: (i) signed on or about its date, by the person indicated; (ii) that signatures, if any, are genuine; and (iii) except in the case of a document appearing to be a draft, that it was sent to and received by the addressee or addressees in normal course. All parties reserve the right to adduce proof to controvert anything stipulated by this paragraph.

APPROVED:

KENYON & KENYON REILLY CARR & CHAPIN
Attorneys for Plaintiffs

January 21, 1975

By

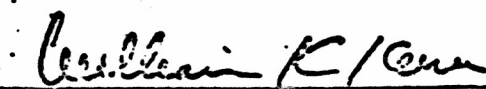

Francis T. Carr
59 Maiden Lane
New York, New York 10038
(212) 425-7200

APPROVED:

FISH & NEAVE
Attorneys for Defendant

January 22, 1975

By


William K. Kerr
277 Park Avenue
New York, New York 10017
(212) 826-1050

SO ORDERED:

January , 1975

Hon. William C. Conner
UNITED STATES DISTRICT JUDGE

EXHIBIT 4

[Annexed to foregoing Affidavit]

Stipulation and Order

A-68

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

H. KOHNSTAMM & COMPANY, INC.,

Plaintiff,

v.

ALLIED CHEMICAL CORPORATION,

Defendant.

Civil Action No.

72 Civ. 301 (WCC)

(CONSOLIDATED)

WARNER-JENKINSON COMPANY,

Plaintiff,

v.

ALLIED CHEMICAL CORPORATION,

Defendant.

Civil Action No.

72 Civ. 302 (WCC)

STIPULATION AND ORDER

WHEREAS Plaintiff, H. Kohnstamm & Company, Inc., plaintiff, Warner-Jenkinson Company, and defendant, Allied Chemical Corporation, have settled these consolidated actions;

The parties STIPULATE AND AGREE, subject to the approval of the Court, that:

1. Plaintiffs' amended complaints, to the extent that each seeks a declaratory judgment with respect to validity, enforceability and infringement of defendant's patents 3,519,617 and 3,640,733, are dismissed without prejudice.

2. Defendant's counterclaims for infringement by each of plaintiffs are dismissed without prejudice.

3. Each plaintiff's cause of action for damages and injunctive relief based on defendant's alleged unfair competition is dismissed with prejudice.

4. Each party shall bear its own costs and attorney fees.

KENYON & KENYON REILLY CARR & CHAPIN

July 21, 1975
New York, New York

Francis T. Carr
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs
H. Kohnstamm & Company, Inc., and
Warner-Jenkinson Company

OF COUNSEL:

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm &
Company, Inc.

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
Counsel for Warner-Jenkinson
Company

FISH & NEAVE

July 22, 1975
New York, New York

William K. Kerr
William K. Kerr
William J. Gilbreth
John E. Nathan
Hugh C. Barrett
277 Park Avenue
New York, New York 10017
(212) 826-1050
Attorneys for Defendant
Allied Chemical Corporation

OF COUNSEL:

Roy H. Massengill, Esq.
Jay P. Friedenson, Esq.
P.O. Box 1057R
Morristown, New Jersey 07960
(201) 455-5127

A TRUE COPY
RAYMOND F. BUECHART, Clerk

By G. Harrison
Deputy Clerk

SO ORDERED:

July 22, 1975

William C. Conner
UNITED STATES DISTRICT JUDGE

Date: July 23, 1975

EXHIBIT 5

[Annexed to foregoing Affidavit]

Settlement Agreement

SETTLEMENT AGREEMENT

THIS AGREEMENT, entered into as of March 1, 1975, by and among ALLIED CHEMICAL CORPORATION, a corporation of the State of New York, having a principal place of business at Columbia Road and Park Avenue, Morris Township, New Jersey (hereinafter "Allied Chemical"), H. KOHNSTAMM & COMPANY, INC., a corporation of the State of New York having a principal place of business at 161 Avenue of the Americas, New York, New York (hereinafter "Kohnstamm"), and WARNER-JENKINSON COMPANY, a corporation of the State of Missouri, having a principal place of business at 2526 Baldwin Street, St. Louis, Missouri (hereinafter "Warner-Jenkinson").

WITNESSETH THAT:

WHEREAS, Allied Chemical is and always has been the owner of the entire right, title and interest in United States Letters Patent No. 3,519,617, "RED PHENYL-AZO-NAPHTHOL DYESTUFFS FOR EDIBLE COMPOSITIONS," and in United States Letters Patent No. 3,640,733, "EDIBLE SUBSTRATES COLORED WITH MONOAZO DYESTUFFS," including the right to recover for past infringement thereof;

WHEREAS, Kohnstamm and Warner-Jenkinson have brought actions in the United States District Court, Southern District of New York, Civil Actions Nos. 72 Civ. 301 (WCC) and 72 Civ. 302 (WCC), for a declaratory judgment that United States Letters Patent Nos. 3,519,617 and 3,640,733 are invalid, unenforceable and not infringed by Kohnstamm and Warner-Jenkinson and for unfair competition;

WHEREAS, Allied Chemical has counterclaimed for infringement by Kohnstamm and Warner-Jenkinson of said United States Letters Patent Nos. 3,519,617 and 3,640,733; and for infringement by The Seven-Up Company (hereinafter "Seven-Up") of the said Letters Patents, which action against Seven-Up was transferred to the United States District Court for the Eastern District of Missouri, and subsequently dismissed;

WHEREAS, the parties desire to settle their differences with respect to said Letters Patents;

NOW, THEREFORE, for and in consideration of the premises and the mutual agreements hereinafter recited, the parties agree as follows:

1. Kohnstamm and Warner-Jenkinson shall pay to Allied Chemical within thirty days after the execution of this Agreement the total sum of \$200,000, such payment to be allocated between Kohnstamm and Warner-Jenkinson on any basis agreed upon between them.

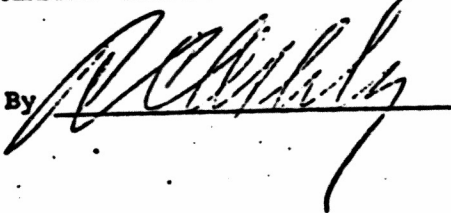
2. Upon receipt of such payment, Allied Chemical releases Kohnstamm, Warner-Jenkinson and its parent corporation, Seven-Up, and each of them, and the suppliers and vendees of each of them, from all liability for infringement, contributory infringement, and inducement of infringement, of said patents based on activities occurring prior to March 1, 1975.

3. Allied Chemical shall grant, and each of Kohnstamm and Warner-Jenkinson shall accept, a license agreement in the form annexed as Exhibit A, each of such license agreements to be entered into simultaneously with execution of this Agreement.

4. Kohnstamm and Warner-Jenkinson, and each of them, hereby release Allied Chemical, its successors and assigns, from all liability, based upon or related to the causes of action for unfair competition pleaded as "Second Cause of Action" in each of the complaints and amended complaints in Civil Actions Nos. 72 Civ. 301 (WCC) and 72 Civ. 302 (WCC) based upon activities occurring prior to the dismissal of these actions.

5. Civil Actions Nos. 72 Civ. 301 (WCC) and 72 Civ. 302 (WCC) shall be terminated, subject to the Court's approval, by entry of a Stipulation in the form annexed as Exhibit B.

ALLIED CHEMICAL CORPORATION

By 

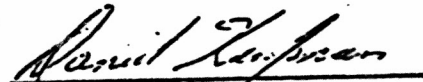
ATTEST:


Assistant Secretary


H. KOHNSTAMM & COMPANY, INC.

By Paul L. Kohnstamm
PRESIDENT

ATTEST:


Secretary

WARNER-JENKINSON COMPANY

By 

ATTEST:

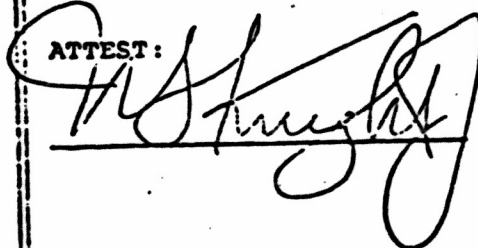


EXHIBIT 6

[Annexed to foregoing Affidavit]

License Agreement

A-75

LICENSE AGREEMENT

THIS AGREEMENT, made as of this 1st day of March 1975, by and between ALLIED CHEMICAL CORPORATION, a corporation organized and existing under the laws of the State of New York and having a place of business at Columbia Road and Park Avenue, Morris Township, New Jersey (hereinafter referred to as "Licensor") and WARNER-JENKINSON COMPANY, a corporation of the State of Missouri having a principal place of business at 2526 Baldwin Street, St. Louis, Missouri (hereinafter referred to as "Licensee")

W I T N E S S E T H:

WHEREAS, Licensor is the owner of United States Patent No. 3,519,617 to G. E. Rast et al., "Red Phenyl-Azo-Naphthol Dyestuffs for Edible Compositions," and United States Patent No. 3,640,733 to G. E. Rast et al., "Edible Substrates Colored With Monoazo Dyestuffs," and

WHEREAS, Licensee is desirous of obtaining non-exclusive licenses under the aforesaid patents upon the terms and conditions hereinafter set forth, and Licensor is desirous of granting such licenses,

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter recited, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 "Licensed Food Colors" shall mean specifically F.D.&C. Red No. 40 and all colors described and claimed in United States Patent No. 3,519,617.

1.2 "Licensed Compositions" shall mean all colored compositions described and claimed in United States Patent No. 3,640,733.

1.3 "Primary Colors" shall mean pure color additives possessing the specifications as required for certification by the United States Food and Drug Administration.

1.4 "Secondary Colors" shall mean mixtures of two or more Primary Colors, or one or more Primary Colors and one or more diluents approved by the United States Food and Drug Administration, such as sugar, salt and glycerine.

1.5 "Lakes" shall mean Primary Colors extended on substrata by adsorption, coprecipitation, or chemical combination that does not include any combination of ingredients made by simple mixing processes.

1.6 "Net Sales Price" shall mean the invoice price at which Licensed Food Color was sold by Licensee. Such Net Sales Price shall be computed on the basis of the amount actually billed by Licensee to customers on sales of Licensed Food Colors, f.o.b. factory, after deduction of normal and customary food color industry discounts, but before deduction of any other items, including but not limited to freight allowances and agent's commissions.

1.7 "Aggregate Net Sales Price" shall mean the weighted average Net Sales Price of all Licensed Food Colors sold as Primary Colors in a given calendar quarter.

ARTICLE II

GRANT OF LICENSES

2.1 Licensor hereby grants to Licensee non-exclusive licenses, without the right to sublicense others, under United States Patents Nos. 3,519,617 and 3,640,733 to manufacture, to use and to sell, and to have manufactured for use and sale by Licensee, Licensed Food Colors and Licensed Compositions in the United States, its territories and possessions, together with the right to pass on to Licensee's purchasers of Licensed Food Colors immunity from liability for infringement of United States Patent No. 3,640,733 with respect to Licensed Food Colors on which royalty is paid as provided for herein.

2.2 The term of the licenses herein granted shall be co-extensive with the lives of said United States patents, unless sooner terminated as hereinafter provided.

2.3 No right or license, express or implied, is hereby granted to Licensee under any patent other than those specifically recited in this Article.

ARTICLE III

ROYALTIES

3.1 (a) Licensee shall pay to Licensor at the times and in the manner specified herein a running royalty of 17-1/2% of the Net Sales Price, as herein defined, received by Licensee for Licensed Food Colors manufactured by or for Licensee and sold as Primary Colors by Licensee.

(b) Licensee shall pay to Licensor at the times and in the manner specified herein a running royalty of 17-1/2%, computed in accordance with paragraph 3.2, with respect to Primary Colors manufactured by or for Licensee and sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, including but not limited to flavors, foodstuffs, beverages and wrapping materials in which such Primary or Secondary Colors or Lakes are used as color additive.

(c) Only one royalty shall be payable with respect to Licensed Food Colors sold as Primary Colors by Licensee or sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, irrespective of the source of manufacture of such Licensed Food Colors. Royalties shall not be payable by a Licensee with respect to Licensed Food Colors as to which a royalty has been previously paid by another Licensee.

(d) Royalties previously paid upon Licensed Food Colors sold as Primary Colors and in Secondary Colors, Lakes or Licensed Compositions returned for credit shall be credited against royalties due in the future.

3.2 Royalty payments for Licensed Food Colors sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, as described in paragraph 3.1 (b), shall be based on the number of pounds of Licensed Food Colors included by Licensee in Secondary Colors, Lakes or Licensed Compositions. The royalty on any such sales by Licensee shall be based upon the Aggregate Net Sales Price of Licensed Food Colors sold as Primary Colors during the preceding full calendar quarter, or if there were no such sales of Licensed Food Colors as Primary Colors in such calendar quarter, then during the calendar quarter when last sold.

3.3 In order to assure to Licensor the full royalty payments contemplated in this Agreement, the Licensee agrees that in the event any Licensed Food Color shall be sold or transferred either (a) to a corporation, firm, or association which, or individual who, owns a controlling interest in Licensee by stock ownership or otherwise, or (b) to a corporation, firm, or association in which the Licensee or its stockholders own a controlling interest by stock ownership or otherwise, or (c) to any other corporation, firm or association controlled by Licensee, the royalties to be paid shall be computed upon Net Sales Price as above defined.

3.4 Licensee's obligation to report and pay royalties shall commence with Licensed Food Colors sold on or after March 1, 1975, irrespective of the date when such Licensed Food Colors were manufactured. A sale shall be deemed to have taken place on the billing date or the shipping date, whichever occurs first.

3.5 The royalties specified herein shall be due and payable to Licensor for each quarter, and Licensee shall pay to Licensor within thirty days of the last day of each of the months of February, May, August and November of each year the total amount of royalties so due on account of its operations during the preceding quarter. Each such quarterly royalty payment shall be accompanied by a written statement setting forth (1) the Net Sales Price of Licensed Food Colors sold by Licensee as Primary Colors during the preceding quarter and the amount of royalties due thereon; and (2) the Aggregate Net Sales Price of Primary Colors sold by Licensee in Secondary Colors, Lakes or Licensed Compositions and the amount of royalties due thereon.

3.6 Licensee shall prepare and keep accurate and complete books and records relating to the manufacture and sale of Licensed Food Colors sold as Primary Colors and in Secondary Colors, Lakes and Licensed Compositions in sufficient detail to enable Licensor to verify the correctness of each such written quarterly statement and the royalties based thereon, and to this end shall permit an independent certified public accountant selected and paid for by Licensor, except one to whom Licensee has some reasonable objection, to have access to the aforementioned books and records at all reasonable times during ordinary business hours for the purpose of determining or verifying the royalties due Licensor hereunder. Such books and records shall be retained by Licensee for a period of six years.

ARTICLE IV

TERMINATION

4.1 Licensee shall have the right to terminate this Agreement at any time after the second anniversary hereof by giving Licensor not less than sixty (60) days' notice in writing to that effect.

4.2 Licensor shall have the right to terminate this Agreement in its entirety upon giving Licensee not less than sixty (60) days' notice in writing to that effect, in the event Licensee shall default in the performance of any of the covenants or conditions of this Agreement on its part to be performed and shall not remedy such default in the sole judgment of Licensor within sixty (60) days of the date of such notice.

4.3 In the event that Licensee is adjudged a bankrupt, or if a trustee or receiver of its property is appointed by any Court of competent jurisdiction, or if Licensee shall make any assignment for the benefit of creditors, this Agreement may, at Licensor's option, be terminated forthwith.

4.4 Termination of this Agreement shall not relieve Licensee of any obligations to pay royalties or other obligations incurred hereunder prior to the effective date of such termination.

ARTICLE V

PATENT MARKING

5. Licensee shall place the following notice on all containers of Licensed Food Colors (in the form of Primary Colors, Secondary Colors or Lakes): "Licensed Under United States Patent No. 3,519,617."

ARTICLE VI

FAVORED LICENSEE PROTECTION

6. If Licensor should enter an agreement granting rights under the patents licensed hereunder to a third person, Licensor shall notify Licensee of said agreement and its terms. Licensee shall have the right to any more favorable terms with respect to Licensed Food Colors and Licensed Compositions sold or used subsequent to the date of such other agreement provided that Licensee accepts all other terms of such other agreement. The fair and reasonable value of any rights Licensor may receive in accordance with such other agreement shall be given consideration in determining if the terms are more favorable than those afforded to Licensee by this Agreement.

ARTICLE VII

OTHER ADJUDICATIONS

7. In the event that the patents licensed hereunder are held invalid, or interpreted in such a manner as not to cover Licensee's activities, by any Court of final jurisdiction from whose decision no appeal has or can be taken, Licensee's obligation to pay royalties shall be terminated forthwith.

ARTICLE VIII

ASSIGNMENT

8. This Agreement and the licenses herein granted (a) shall be binding upon and inure to the benefit of each of the parties hereto, and their respective subsidiaries, (b) shall be assignable by Licensor, and (c) shall be assignable by Licensee to a successor of Licensee's entire business of manufacturing food-grade dyestuffs. Any other purported assignment by Licensee without the written consent of Licensor shall be void.

ARTICLE IX

LAW GOVERNING

9. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

ARTICLE X

ENTIRETY OF AGREEMENT

10. This Agreement constitutes the entire understanding between the parties hereto with respect to the subject matter hereof, and there are no understandings or representations,

express or implied, not expressly set forth herein. No modification, extension or waiver of any provision hereof or any release of any right hereunder shall be valid unless the same is in writing and is executed by both parties hereto.

ARTICLE XI

NOTICES

11. Any notice, payment or communication to be given hereunder shall be sent by certified mail, postage prepaid, and addressed as follows:

If to Licensor:

Allied Chemical Corporation
Specialty Chemicals Division
P.O. Box 1057R
Morristown, New Jersey 07960
Attention: Comptroller

If to Licensee:

Warner-Jenkinson Company
2526 Baldwin Street
St. Louis, Missouri 63106
Attention: Comptroller

or to such other address as either party shall have specified by notice to the other.

ARTICLE XII

MISCELLANEOUS

12.1 Nothing herein shall be construed: (a) as a representation by Licensor that Licensed Food Colors or Licensed Compositions are free of patent infringement claims of a third party; or (b) as a commitment by Licensor to hold Licensee or any of its customers harmless from third party patent infringement claims; or (c) except as specified in paragraph 12.2,

as a commitment by Licensor to prosecute infringement by third parties of the patents licensed hereunder.

12.2 At any time during the term of this Agreement should United States Patent No. 3,519,617 be infringed by the substantially continuous sale or offer for sale of non-licensed Food Colors for a period of six (6) months after Licensor receives written notice from Licensee of such infringement, Licensee shall have the right to withhold the payment of royalties to Licensor until such time as Licensor abates such infringement by:

- (a) the grant of a license to such infringer,
- or
- (b) compelling the infringer to stop such infringement, or
- (c) filing suit to terminate such infringement.

Licensor shall certify in writing to Licensee of the abatement of such infringement before the expiration of the six month period from the date of Licensee's notice to Licensor of such infringement.

In the event that Licensor files suit to terminate such infringement, or otherwise asserts its patents against such an infringer, Licensee shall deposit the royalties due hereunder in an interest-bearing escrow account administered by a mutually agreeable escrow agent until such time as the suit is brought to a final judgment, settled or otherwise disposed of. If in a judgment rendered by any Court of final jurisdiction from whose decision no appeal has or can be taken, the patent or patents in suit is or are declared invalid, unenforceable or interpreted not to cover any activity of Licensee, then royalties deposited by Licensee in escrow, together with accrued interest, shall be

returned to Licensee. If a judgment rendered by any Court of final jurisdiction from whose decision no appeal has or can be taken results in an injunction terminating such infringement, then royalties deposited by Licensee in escrow, together with accrued interest, shall be paid over to Licensor. If the settlement or termination of such suit includes a settlement for infringement during the period between notice by Licensee of such infringement and the effective date of such settlement ("The Period") at a royalty rate lower than 50% of the then current royalty rate, Licensor shall be paid royalties from the escrow account at a royalty rate of 50% of such then current royalty rate for The Period, together with pro rata interest accrued thereon; the remainder of such escrow account shall be returned to Licensee. If the settlement or termination of such suit includes the grant of a license at any royalty rate lower than the then current royalty rate, Licensee's future operations under this Agreement shall be governed by the lower royalty rate stated in the license granted pursuant to the settlement or termination of such suit. Licensor may fulfill its obligation hereunder by bringing and prosecuting only one suit at a time.

12.3 Licensee shall have no rights with respect to use of any trademark or trade name of Licensor in any manner in connection with the manufacture, use or sale of Licensed Food Colors or Licensed Compositions.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate by their representatives

duly authorized and their respective corporate seals to be here-
unto affixed as of the day and year first above written.

ALLIED CHEMICAL CORPORATION

By

ATTEST:

H. L. C. vander
Assistant Secretary

WARNER-JENKINSON COMPANY

By

ATTEST:

R. A. King

EXHIBIT 7

[Annexed to foregoing Affidavit)

License Agreement

LICENSE AGREEMENT

THIS AGREEMENT, made as of this 1st day of March 1975.
by and between ALLIED CHEMICAL CORPORATION, a corporation
organized and existing under the laws of the State of New York
and having a place of business at Columbia Road and Park Avenue,
Morris Township, New Jersey (hereinafter referred to as "Licensor"),
and H. KOHNSTAMM & COMPANY, INC., a corporation of the State of
New York having a principal place of business at 161 Avenue of
the Americas, New York, New York (hereinafter referred to as
"Licensee").

W I T N E S S E T H:

WHEREAS, Licensor is the owner of United States Patent
No. 3,519,617 to G. E. Rast et al., "Red Phenyl-Azo-Naphthol
Dyestuffs for Edible Compositions," and United States Patent No.
3,640,733 to G. E. Rast et al., "Edible Substrates Colored With
Monoazo Dyestuffs," and

WHEREAS, Licensee is desirous of obtaining non-exclusive
licenses under the aforesaid patents upon the terms and conditions
hereinafter set forth, and Licensor is desirous of granting such
licenses,

NOW, THEREFORE, in consideration of the premises and
the mutual covenants and agreements hereinafter recited, the
parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 "Licensed Food Colors" shall mean specifically F.D.&C. Red No. 40 and all colors described and claimed in United States Patent No. 3,519,617.

1.2 "Licensed Compositions" shall mean all colored compositions described and claimed in United States Patent No. 3,640,733.

1.3 "Primary Colors" shall mean pure color additives possessing the specifications as required for certification by the United States Food and Drug Administration.

1.4 "Secondary Colors" shall mean mixtures of two or more Primary Colors, or one or more Primary Colors and one or more diluents approved by the United States Food and Drug Administration; such as sugar, salt and glycerine.

1.5 "Lakes" shall mean Primary Colors extended on substrata by adsorption, coprecipitation, or chemical combination that does not include any combination of ingredients made by simple mixing processes.

1.6 "Net Sales Price" shall mean the invoice price at which Licensed Food Color was sold by Licensee. Such Net Sales Price shall be computed on the basis of the amount actually billed by Licensee to customers on sales of Licensed Food Colors, f.o.b. factory, after deduction of normal and customary food color industry discounts, but before deduction of any other items, including but not limited to freight allowances and agent's commissions.

1.7 "Aggregate Net Sales Price" shall mean the weighted average Net Sales Price of all Licensed Food Colors sold as Primary Colors in a given calendar quarter.

ARTICLE II

GRANT OF LICENSES

2.1 Licensor hereby grants to Licensee non-exclusive licenses, without the right to sublicense others, under United States Patents Nos. 3,519,617 and 3,640,733 to manufacture, to use and to sell, and to have manufactured for use and sale by Licensee, Licensed Food Colors and Licensed Compositions in the United States, its territories and possessions, together with the right to pass on to Licensee's purchasers of Licensed Food Colors immunity from liability for infringement of United States Patent No. 3,640,733 with respect to Licensed Food Colors on which royalty is paid as provided for herein.

2.2 The term of the licenses herein granted shall be co-extensive with the lives of said United States patents, unless sooner terminated as hereinafter provided.

2.3 No right or license, express or implied, is hereby granted to Licensee under any patent other than those specifically recited in this Article.

ARTICLE III

ROYALTIES

3.1 (a) Licensee shall pay to Licensor at the times and in the manner specified herein a running royalty of 17-1/2% of the Net Sales Price, as herein defined, received by Licensee for Licensed Food Colors manufactured by or for Licensee and sold as Primary Colors by Licensee.

(b) Licensee shall pay to Licensor at the times and in the manner specified herein a running royalty of 17-1/2%, computed in accordance with paragraph 3.2, with respect to Primary Colors manufactured by or for Licensee and sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, including but not limited to flavors, foodstuffs, beverages and wrapping materials in which such Primary or Secondary Colors or Lakes are used as color additives.

(c) Only one royalty shall be payable with respect to Licensed Food Colors sold as Primary Colors by Licensee or sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, irrespective of the source of manufacture of such Licensed Food Colors. Royalties shall not be payable by a Licensee with respect to Licensed Food Colors as to which a royalty has been previously paid by another Licensee.

(d) Royalties previously paid upon Licensed Food Colors sold as Primary Colors and in Secondary Colors, Lakes or Licensed Compositions returned for credit shall be credited against royalties due in the future.

3.2 Royalty payments for Licensed Food Colors sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, as described in paragraph 3.1 (b), shall be based on the number of pounds of Licensed Food Colors included by Licensee in Secondary Colors, Lakes or Licensed Compositions. The royalty on any such sales by Licensee shall be based upon the Aggregate Net Sales Price of Licensed Food Colors sold as Primary Colors during the preceding full calendar quarter, or if there were no such sales of Licensed Food Colors as Primary Colors in such calendar quarter, then during the calendar quarter when last sold.

3.3 In order to assure to Licensor the full royalty payments contemplated in this Agreement, the Licensee agrees that in the event any Licensed Food Color shall be sold or transferred either (a) to a corporation, firm, or association which, or individual who, owns a controlling interest in Licensee by stock ownership or otherwise, or (b) to a corporation, firm, or association in which the Licensee or its stockholders own a controlling interest by stock ownership or otherwise, or (c) to any other corporation, firm or association controlled by Licensee, the royalties to be paid shall be computed upon Net Sales Price as above defined.

3.4 Licensee's obligation to report and pay royalties shall commence with Licensed Food Colors sold on or after March 1, 1975, irrespective of the date when such Licensed Food Colors were manufactured. A sale shall be deemed to have taken place on the billing date or the shipping date, whichever occurs first.

3.5 The royalties specified herein shall be due and payable to Licensor for each quarter, and Licensee shall pay to Licensor within thirty days of the last day of each of the months of February, May, August and November of each year the total amount of royalties so due on account of its operations during the preceding quarter. Each such quarterly royalty payment shall be accompanied by a written statement setting forth (1) the Net Sales Price of Licensed Food Colors sold by Licensee as Primary Colors during the preceding quarter and the amount of royalties due thereon; and (2) the Aggregate Net Sales Price of Primary Colors sold by Licensee in Secondary Colors, Lakes or Licensed Compositions and the amount of royalties due thereon.

3.6 Licensee shall prepare and keep accurate and complete books and records relating to the manufacture and sale of Licensed Food Colors sold as Primary Colors and in Secondary Colors, Lakes and Licensed Compositions in sufficient detail to enable Licensor to verify the correctness of each such written quarterly statement and the royalties based thereon, and to this end shall permit an independent certified public accountant selected and paid for by Licensor, except one to whom Licensee has some reasonable objection, to have access to the aforementioned books and records at all reasonable times during ordinary business hours for the purpose of determining or verifying the royalties due Licensor hereunder. Such books and records shall be retained by Licensee for a period of six years.

ARTICLE IV

TERMINATION

4.1 Licensee shall have the right to terminate this Agreement at any time after the second anniversary hereof by giving Licensor not less than sixty (60) days' notice in writing to that effect.

4.2 Licensor shall have the right to terminate this Agreement in its entirety upon giving Licensee not less than sixty (60) days' notice in writing to that effect, in the event Licensee shall default in the performance of any of the covenants or conditions of this Agreement on its part to be performed and shall not remedy such default in the sole judgment of Licensor within sixty (60) days of the date of such notice.

4.3 In the event that Licensee is adjudged a bankrupt, or if a trustee or receiver of its property is appointed by any Court of competent jurisdiction, or if Licensee shall make any assignment for the benefit of creditors, this Agreement may, at Licensor's option, be terminated forthwith.

4.4 Termination of this Agreement shall not relieve Licensee of any obligations to pay royalties or other obligations incurred hereunder prior to the effective date of such termination.

ARTICLE V

PATENT MARKING

5. Licensee shall place the following notice on all containers of Licensed Food Colors (in the form of Primary Colors, Secondary Colors or Lakes): "Licensed Under United States Patent No. 3,519,617."

ARTICLE VI

FAVORED LICENSEE PROTECTION

6. If Licensor should enter an agreement granting rights under the patents licensed hereunder to a third person, Licensor shall notify Licensee of said agreement and its terms. Licensee shall have the right to any more favorable terms with respect to Licensed Food Colors and Licensed Compositions sold or used subsequent to the date of such other agreement provided that Licensee accepts all other terms of such other agreement. The fair and reasonable value of any rights Licensor may receive in accordance with such other agreement shall be given consideration in determining if the terms are more favorable than those afforded to Licensee by this Agreement.

ARTICLE VII

OTHER ADJUDICATIONS

7. In the event that the patents licensed hereunder are held invalid, or interpreted in such a manner as not to cover Licensee's activities, by any Court of final jurisdiction from whose decision no appeal has or can be taken, Licensee's obligation to pay royalties shall be terminated forthwith.

ARTICLE VIII

ASSIGNMENT

8. This Agreement and the licenses herein granted (a) shall be binding upon and inure to the benefit of each of the parties hereto, and their respective subsidiaries, (b) shall be assignable by Licensor, and (c) shall be assignable by Licensee to a successor of Licensee's entire business of manufacturing food-grade dyestuffs. Any other purported assignment by Licensee without the written consent of Licensor shall be void.

ARTICLE IX

LAW GOVERNING

9. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

ARTICLE X

ENTIRETY OF AGREEMENT

10. This Agreement constitutes the entire understanding between the parties hereto with respect to the subject matter hereof, and there are no understandings or representations.

express or implied, not expressly set forth herein. No modification, extension or waiver of any provision hereof or any release of any right hereunder shall be valid unless the same is in writing and is executed by both parties hereto.

ARTICLE XI

NOTICES

11. Any notice, payment or communication to be given hereunder shall be sent by certified mail, postage prepaid, and addressed as follows:

If to Licensor:

Allied Chemical Corporation
Specialty Chemicals Division
P.O. Box 1057R
Morristown, New Jersey 07960
Attention: Comptroller

If to Licensee:

H. Kohnstamm & Company, Inc.
161 Avenue of the Americas
New York, New York 10013
Attention: Comptroller

or to such other address as either party shall have specified by notice to the other.

ARTICLE XII

MISCELLANEOUS

12.1 Nothing herein shall be construed: (a) as a representation by Licensor that Licensed Food Colors or Licensed Compositions are free of patent infringement claims of a third party; or (b) as a commitment by Licensor to hold Licensee or any of its customers harmless from third party patent infringement claims; or (c) except as specified in paragraph 12.2,

as a commitment by Licensor to prosecute infringement by third parties of the patents licensed hereunder.

12.2 At any time during the term of this Agreement should United States Patent No. 3,519,617 be infringed by the substantially continuous sale or offer for sale of non-licensed Food Colors for a period of six (6) months after Licensor receives written notice from Licensee of such infringement, Licensee shall have the right to withhold the payment of royalties to Licensor until such time as Licensor abates such infringement by:

- (a) the grant of a license to such infringer,
- or
- (b) compelling the infringer to stop such infringement,
- or
- (c) filing suit to terminate such infringement.

Licensor shall certify in writing to Licensee of the abatement of such infringement before the expiration of the six month period from the date of Licensee's notice to Licensor of such infringement.

In the event that Licensor files suit to terminate such infringement, or otherwise asserts its patents against such an infringer, Licensee shall deposit the royalties due hereunder in an interest-bearing escrow account administered by a mutually agreeable escrow agent until such time as the suit is brought to a final judgment, settled or otherwise disposed of. If in a judgment rendered by any Court of final jurisdiction from whose decision no appeal has or can be taken, the patent or patents in suit is or are declared invalid, unenforceable or interpreted not to cover any activity of Licensee, then royalties deposited by Licensee in escrow, together with accrued interest, shall be

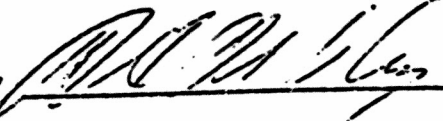
returned to Licensee. If a judgment rendered by any Court of final jurisdiction from whose decision no appeal has or can be taken results in an injunction terminating such infringement, then royalties deposited by Licensee in escrow, together with accrued interest, shall be paid over to Licensor. If the settlement or termination of such suit includes a settlement for infringement during the period between notice by Licensee of such infringement and the effective date of such settlement ("The Period") at a royalty rate lower than 50% of the then current royalty rate, Licensor shall be paid royalties from the escrow account at a royalty rate of 50% of such then current royalty rate for The Period, together with pro rata interest accrued thereon; the remainder of such escrow account shall be returned to Licensee. If the settlement or termination of such suit includes the grant of a license at any royalty rate lower than the then current royalty rate, Licensee's future operations under this Agreement shall be governed by the lower royalty rate stated in the license granted pursuant to the settlement or termination of such suit. Licensor may fulfill its obligation hereunder by bringing and prosecuting only one suit at a time.

12.3 Licensee shall have no rights with respect to use of any trademark or trade name of Licensor in any manner in connection with the manufacture, use or sale of Licensed Food Colors or Licensed Compositions.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate by their representatives

duly authorized and their respective corporate seals to be here-
unto affixed as of the day and year first above written.

ALLIED CHEMICAL CORPORATION

By 

ATTEST:


Assistant Secretary

H. KOHNSTAMM & COMPANY, INC.

By 

ATTEST:



PRESIDENT

12

EXHIBIT 8

[Annexed to foregoing Affidavit]

License Agreement

A-101

LICENSE AGREEMENT

THIS AGREEMENT, made as of this 15th day of March 1976, by and between ALLIED CHEMICAL CORPORATION, a Corporation organized and existing under the laws of the State of New York and having a place of business at Columbia Road and Park Avenue, Morris Township, New Jersey (hereinafter referred to as "Licensor") and STERLING DRUG INC., a Corporation of the State of Delaware, having a principal place of business at 90 Park Avenue, New York, New York 10016 (hereinafter referred to as "Licensee").

W I T N E S S E T H:

WHEREAS, Licensor is the owner of United States Patent No. 3,519,617 to G.E. Rast et al., "Red Phenyl-Azo-Naphthol Dyestuffs for Edible Compositions," and United States Patent No. 3,640,733 to G.E. Rast et al., "Edible Substrates Colored With Monoazo Dyestuffs," and

WHEREAS, Licensee is desirous of obtaining non-exclusive licenses under the aforesaid patents upon the terms and conditions hereinafter set forth, and Licensor is desirous of granting such licenses,

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter recited, the parties hereto agree as follows:

ARTICLE I

D E F I N I T I O N S

1.1 "Licensed Food Colors" shall mean specifically F.D.&C. Red No. 40 and all colors described and claimed in United States Patent No. 3,519,617.

1.2 "Licensed Compositions" shall mean all colored compositions described and claimed in United States Patent No. 3,640,733.

1.3 "Primary Colors" shall mean pure color additives possessing the specifications as required for certification by the United States Food and Drug Administration.

1.4 "Secondary Colors" shall mean mixtures of two or more Primary Colors, or one or more Primary Colors and one or more diluents approved by the United States Food and Drug Administration, such as sugar, salt and glycerine.

1.5 "Lakes" shall mean Primary Colors extended on substrata by absorption, coprecipitation, or chemical combination that does not include any combination of ingredients made by simple mixing processes.

1.6 "Net Sales Price" shall mean the invoice price at which Licensed Food Color was sold by Licensee. Such Net Sales Price shall be computed on the basis of the amount actually billed by Licensee to customers on sales of Licensed Food Colors, f.o.b. factory, after deduction of normal and customary food color industry discounts, but before deduction of any other items, including but not limited to freight allowances and agent's commissions.

1.7 "Aggregate Net Sales Price" shall mean the weighted average Net Sales Price of all Licensed Food Colors sold as Primary Colors in a given calendar quarter.

ARTICLE II

GRANT OF LICENSES

2.1 Licensor hereby grants to Licensee non-exclusive licenses, without the right to sublicense others, under United States Patents Nos. 3,519,617 and 3,640,733 to manufacture, to use and to sell, and to have manufactured for use and sale by Licensee, Licensed Food Colors and Licensed Compositions in the United States, its territories and possessions, together with the right to pass on to Licensee's purchasers of Licensed

Food Colors immunity from liability for infringement of United States Patent No. 3,640,733 with respect to Licensed Food Colors on which royalty is paid as provided for herein.

2.2 The term of the licenses herein granted shall be co-extensive with the lives of said United States patents, unless sooner terminated as hereinafter provided.

2.3 No right or license, express or implied, is hereby granted to Licensee under any patent other than those specifically recited in this Article.

ARTICLE III

ROYALTIES

3.1 Within thirty (30) days after the date of this Agreement, Licensee shall pay to Licensors the total sum of One Hundred Thousand Dollars (\$100,000) which shall be non-refundable and not creditable against the running royalties provided for herein.

3.2 (a) Licensee shall pay to Licensors at the times and in the manner specified herein a running royalty of 17-1/2% of the Net Sales Price, as herein defined, received by Licensee for Licensed Food Colors manufactured by or for Licensee and sold as Primary Colors by Licensee.

(b) Licensee shall pay to Licensors at the times and in the manner specified herein a running royalty of 17-1/2% computed in accordance with Paragraph 3.3 with respect to Primary Colors manufactured by or for Licensee and sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, including but not limited to flavors, foodstuffs, beverages and wrapping materials in which such Primary or Secondary Colors or Lakes are used as color additives.

(c) Only one royalty shall be payable with respect to Licensed Food Colors sold as Primary Colors by Licensee

or sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, irrespective of the source of manufacture of such Licensed Food Colors. Royalties shall not be payable by a Licensee with respect to Licensed Food Colors as to which a royalty has been previously paid by another Licensee.

(d) Royalties previously paid upon Licensed Food Colors sold as Primary Colors and in Secondary Colors, Lakes or Licensed Compositions returned for credit shall be credited against royalties due in the future.

3.3 Royalty payments for Licensed Food Colors sold by Licensee in Secondary Colors, Lakes or Licensed Compositions, as described in Paragraph 3.2 (b), shall be based on the number of pounds of Licensed Food Colors included by Licensee in Secondary Colors, Lakes or Licensed Compositions. The royalty on any such sales by Licensee shall be based upon the Aggregate Net Sales Price of Licensed Food Colors sold as Primary Colors during the preceding full calendar quarter, or if there were no such sales of Licensed Food Colors as Primary Colors in such calendar quarter, then during the calendar quarter when last sold.

3.4 In order to assure to Licensor the full royalty payments contemplated in this Agreement, the Licensee agrees that in the event any Licensed Food Color shall be sold or transferred either (a) to a corporation, firm, or association which, or individual who, owns a controlling interest in Licensee by stock ownership or otherwise, or (b) to a corporation, firm, or association in which the Licensee or its stockholders own a controlling interest by stock ownership or otherwise, or (c) to any other corporation, firm or association controlled by Licensee, the royalties to be ^{Aggregate} paid shall be computed upon/Net Sales Price as above defined.

12/1/76
6/1/76
4/12/76

3.5 For the purpose of this Agreement, a sale shall be deemed to have taken place on the billing date or the shipping date, whichever occurs first.

3.6 The royalties specified herein shall be due and payable to Licensor for each quarter, and Licensee shall pay to Licensor within thirty days of the last day of each of the months of February, May, August and November of each year the total amount of royalties so due on account of its operations during the preceding quarter. Each such quarterly royalty payment shall be accompanied by a written statement and Aggregate Net Sales Price setting forth (1) the Net Sales Price/of Licensed Food Colors sold by Licensee as Primary Colors during the preceding quarter and the amount of royalties due thereon; and (2) the Aggregate Net Sales Price of Primary Colors sold by Licensee in Secondary Colors, Lakes or Licensed Compositions and the amount of royalties due thereon.

3.7 Licensee shall prepare and keep accurate and complete books and records relating to the manufacture and sale of Licensed Food Colors sold as Primary Colors and in Secondary Colors, Lakes and Licensed Compositions in sufficient detail to enable Licensor to verify the correctness of each such written quarterly statement and the royalties based thereon, and to this end shall permit an independent certified public accountant selected and paid for by Licensor, except one to whom Licensee has some reasonable objection, to have access to the aforementioned books and records at all reasonable times during ordinary business hours for the purpose of determining or verifying the royalties due Licensor hereunder. Such books and records shall be retained by Licensee for a period of six years.

ARTICLE IV

TERMINATION

4.1 Licensee shall have the right to terminate this Agreement at any time after March 1, 1977 by giving Licensor not less than sixty (60) days' notice in writing to that effect.

4.2 Licensor shall have the right to terminate this Agreement in its entirety upon giving Licensee not less than sixty (60) days' notice in writing to that effect, in the event Licensee shall default in the performance of any of the covenants or conditions of this Agreement on its part to be performed and shall not remedy such default in the sole judgment of Licensor within sixty (60) days of the date of such notice.

4.3 In the event that Licensee is adjudged a bankrupt, or if a trustee or receiver of its property is appointed by any Court of competent jurisdiction, or if Licensee shall make any assignment for the benefit of creditors, this Agreement may, at Licensor's option, be terminated forthwith.

4.4 Termination of this Agreement shall not relieve Licensee of any obligations to pay royalties or other obligations incurred hereunder prior to the effective date of such termination.

ARTICLE V

PATENT MARKING

5. Licensee shall place the following notice on all containers of Licensed Food Colors (in the form of Primary Colors, Secondary Colors or Lakes): "Licensed Under Allied Chemical's United States Patent No. 3,519,617."

ARTICLE VI

FAVORED LICENSEE PROTECTION

6. If Licensor should hereafter enter an agreement

granting rights under the patents licensed hereunder to a third person, Licensor shall notify Licensee of said agreement and its terms. Licensee shall have the right to any more favorable terms with respect to Licensed Food Colors and Licensed Compositions sold or used subsequent to the date of such other agreement provided that Licensee accepts all other terms of such other agreement. The fair and reasonable value of any rights Licensor may receive in accordance with such other agreement shall be given consideration in determining if the terms are more favorable than those afforded to Licensee by this Agreement.

ARTICLE VII

OTHER ADJUDICATIONS

7. In the event that the patents licensed hereunder are held invalid, or interpreted in such a manner as not to cover Licensee's activities, by any Court of final jurisdiction from whose decision no appeal has or can be taken, Licensee's obligation to pay royalties shall be terminated forthwith.

ARTICLE VIII

ASSIGNMENT

8. This Agreement and the licenses herein granted (a) shall be binding upon and inure to the benefit of each of the parties hereto, and their respective subsidiaries, (b) shall be assignable by Licensor, and (c) shall be assignable by Licensee to a successor of Licensee's entire business of manufacturing food-grade dyestuffs. Any other purported assignment by Licensee without the written consent of Licensor shall be void.

ARTICLE IX

LAW GOVERNING

9. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

ARTICLE X

ENTIRETY OF AGREEMENT

10. This Agreement constitutes the entire understanding between the parties hereto with respect to the subject matter hereof, and there are no understandings or representations, express or implied, not expressly set forth herein. No modification, extension or waiver of any provision hereof or any release of any right hereunder shall be valid unless the same is in writing and is executed by both parties hereto.

ARTICLE XI

NOTICES

11. Any notice, payment or communication to be given hereunder shall be sent by certified mail, postage prepaid, and addressed as follows:

If to Licensor:

Allied Chemical Corporation
Specialty Chemicals Division
P.O. Box 1057R
Morristown, New Jersey 07960

Attention: Comptroller

If to Licensee:

Hilton-Davis Chemical Co.
(Division of Sterling Drug Inc.)
2235 Langdon Farm Road
Cincinnati, Ohio 45237

Attention: Comptroller

or to such other address as either party shall have specified by notice to the other.

ARTICLE XII

MISCELLANEOUS

12.1 Nothing herein shall be construed: (a) as a representation by Licensor that Licensed Food Colors or Licensed Compositions are free of patent infringement claims of a third party; or (b) as a commitment by Licensor to hold Licensee

or any of its customers harmless from third party patent infringement claims; or (c) except as specified in Paragraph 12.2, as a commitment by Licensor to prosecute infringement by third parties of the patents licensed hereunder.

12.2 In the event that during the term of this Agreement U.S.P. 3,519,617 is infringed by sale of a color described and claimed therein by an unlicensed third party, to such an extent as to interfere materially with Licensee's sale of a Licensed Food Color, Licensee may notify Licensor in writing of such infringement giving written proof of the facts and of material damage to Licensee by reason of such infringement. If such infringement continues for six months after such written notice by Licensee to Licensor, and Licensor has not during such interval

- (a) granted a license to such infringer,
- (b) compelled the infringer to stop such infringement, or

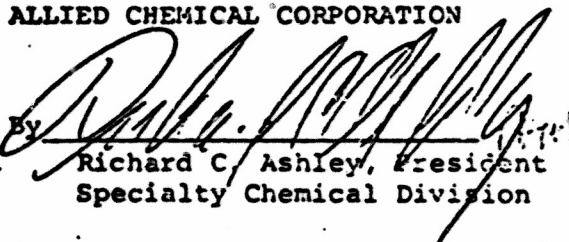
- (c) filed suit to terminate such infringement,

then and in that event, Licensee shall be relieved of the obligation to pay further royalties accruing thereafter until such time as Licensor shall have granted a license to said infringer, or until such infringement is actually terminated, or until Licensor shall have filed suit to terminate such infringement. Licensor may fulfill its obligations hereunder by bringing and prosecuting only one suit at a time and Licensee shall not be relieved of the obligations to pay royalties hereunder so long as one such suit is prosecuted with reasonable diligence by Licensor.

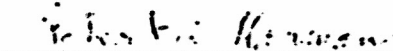
12.3 Licensee shall have no rights with respect to use of any trademark or trade name of Licensor in any manner in connection with the manufacture, use or sale of Licensed Food Colors or Licensed Compositions.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate by their representatives duly authorized and their respective corporate seals to be hereunto affixed as of the day and year first above written.

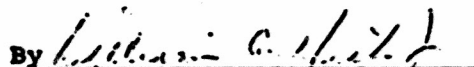
ALLIED CHEMICAL CORPORATION

By 
Richard C. Ashley, President
Specialty Chemical Division


ATTEST:

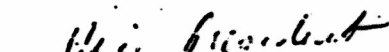

Assistant Secretary

STERLING DRUG INC.

By 

ATTEST:


Assistant Secretary
(F.J. Petrocelli, Jr.)


(William A. Heike, Jr.)

(For referral to Judge
Frankel after docketing.)

**DEFENDANT'S MEMORANDUM IN SUPPORT OF MOTION
TO DISMISS**

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARREN-JENNINSON COMPANY and
H. ROBINSTEIN & COMPANY, INC.,

Plaintiffs,

v.

ALLIED CHEMICAL CORPORATION,

Defendant.

:

:

:

:

:

:

Civil Action No.

76 Civ. 2744 (MEF)

-----x
DEFENDANT'S MEMORANDUM IN SUPPORT OF ITS
RULE 12(b) (1) MOTION TO DISMISS THE COMPLAINT
AND IN OPPOSITION TO PLAINTIFFS' APPLICATION FOR
AN ORDER AUTHORIZING PLAINTIFFS TO DEPOSIT
ROYALTIES IN ESCROW DURING THE PENDENCY OF THIS ACTION

July 28, 1976.

FISH & NEAVE

Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

OF COUNSEL:

William K. Ferry
William J. Cilbreth
John B. Nathan
Hugh C. Barrett
Fish & Neave
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

Roy H. Massengill
Jay F. Friedenson
Allied Chemical Corporation
P. O. Box 1057R
Morristown, New Jersey 07960

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UNITED STATES DISTRICT COURT,
SOUTHERN DISTRICT OF NEW YORK

- - - - -x

WARNER-JENKINSON COMPANY and
H. KOHNSTAMM & COMPANY, INC.,

:

:

Plaintiffs,

:

Civil Action No.

v.

:

76 Civ. 2744 (MEF)

ALLIED CHEMICAL CORPORATION,

:

Defendant.

:

- - - - -x

DEFENDANT'S MEMORANDUM IN SUPPORT OF ITS
RULE 12(b)(1) MOTION TO DISMISS THE COMPLAINT
AND IN OPPOSITION TO PLAINTIFFS' APPLICATION FOR
AN ORDER AUTHORIZING PLAINTIFFS TO DEPOSIT
ROYALTIES IN ESCROW DURING THE PENDENCY OF THIS ACTION

I. INTRODUCTION

This action is now before the Court on (a) plaintiffs' application for an order authorizing plaintiffs to deposit royalties in escrow during the pendency of this action and (b) defendant's Rule 12(b)(1) motion to dismiss plaintiffs' complaint for the lack of subject matter jurisdiction. We submit this memorandum, and the accompanying affidavit, in opposition to plaintiffs' application and in support of defendant's motion.

Plaintiffs filed this action on June 22, 1976. That afternoon plaintiffs served defendant's counsel with a copy of the complaint and with a copy of an Order directing that defendant show cause why plaintiffs should not be authorized to deposit royalties in escrow during the pendency of this action -- without breach of plaintiffs' obligations to pay royalties pursuant to license agreements entered into between plaintiffs and defendant in settlement of earlier litigation.

Plaintiffs' action seeks (a) a declaratory judgment as to the validity, enforceability, and infringement of defendant's two patents relating to a red food color, (b) a declaratory judgment as to the validity and enforceability of license agreements entered into between the parties in settlement of plaintiffs' earlier actions for a declaratory judgment as to the validity, etc., of defendant's two patents, (c) a judgment directing restitution of royalties paid by plaintiffs to defendant pursuant to their license agreements, (d) a judgment that royalties deposited by plaintiffs in escrow during the pendency of this action be returned to plaintiffs upon the conclusion of the action, (e) a judgment that defendant be enjoined from instituting any action against plaintiffs or their customers, either because of plaintiffs' deposit of royalties in escrow or because of plaintiffs' or their customers' manufacture, use, or sale of the red food color for which royalties have been deposited in escrow, and (f) for damages and other relief said to result from defendant's alleged unfair competition in "collecting" the royalties paid by plaintiffs.

Plaintiffs contend that this Court has jurisdiction over the subject matter of this action "pursuant to 28 U.S.C. §§ 1331 [federal question], 1332 [diversity of citizenship] and 1338 [patents and unfair competition]; 28 U.S.C. §§ 2201 and 2202 [declaratory judgments]; and the pendent and ancillary jurisdiction of the Court" (complaint, ¶ 5). Perhaps in recognition of the unfounded nature of their jurisdictional averments, plaintiffs go on to aver that "Kohnstamm alternatively moves, and does hereby move, to intervene as a plaintiff in the action Warner-Jenkinson Company v. Allied Chemical Corporation and does hereby adopt as its motion to intervene and its Complaint against Allied that set forth herein" (complaint, ¶ 6).

Brief discussion of the relevant facts, which are set forth in the accompanying affidavit and to which we now turn, demonstrates that this Court lacks jurisdiction over the subject matter of this action and that plaintiffs should not be excused from their obligations to pay royalties to defendant pursuant to the license agreements entered into in settlement of the earlier litigation.

A. The Parties

It is clear that there is no complete diversity of citizenship because both plaintiff H. Kohnstamm & Company, Inc. ("Kohnstamm") and defendant Allied Chemical Corporation ("Allied Chemical") are New York corporations, and thus citizens of the State of New York.* As admitted by plaintiffs in their complaint:

* The authorities relating to the lack of diversity jurisdiction are discussed in Section II(C), infra.

Plaintiff Warner-Jenkinson Company ("Warner-Jenkinson") is a Missouri corporation (§ 1);

Plaintiff Kohnstamm is a New York corporation (§ 2); and Defendant Allied Chemical is also a New York corporation (§ 3).

B. The Patents

The two patents in suit are Allied Chemical's patent 3,519,617 (the "'617" patent, which is entitled "RED PHENYL-AZO-NAPHTHOL DYESTUFFS FOR EDIBLE COMPOSITIONS" and which issued July 7, 1970) and Allied Chemical's patent 3,640,733 (the "'733" patent, which is entitled "EDIBLE SUBSTRATES COLORED WITH MONOAZO DYESTUFFS" and which issued February 8, 1972).

Claim 6 of the '617 patent is directed to the chemical composition of a red food color known as F.D. & C. Red No. 40 ("Red 40") and claim 7 of the '733 patent is directed to foods colored with Red 40. (Copies of the two patents in suit are annexed to the accompanying affidavit as Exhibits 1 and 2.)*

There is no justiciable controversy with respect to the validity, infringement, or enforceability of either patent in suit because, as made clear by the following discussion of the earlier declaratory judgment actions instituted by plaintiffs, and the settlement of those actions, both plaintiffs are licensed under both patents in suit.**

* Hereinafter, affidavit exhibits will be referred to by their exhibit number.

** The authorities relating to the lack of a justiciable controversy are discussed in Section II(A), infra.

C. The Earlier Litigation

Warner-Jenkinson and Kohnstamm instituted the earlier litigation on January 24, 1972, when each filed a separate action for a declaratory judgment as to the validity, enforceability and infringement of Allied Chemical's '617 patent.* Each complaint included a claim for alleged unfair competition. By "amended" complaints served February 8, 1972, the day the '733 patent issued, Warner-Jenkinson and Kohnstamm broadened their declaratory judgment actions to include the '733 patent. Allied Chemical counter-claimed in each action for infringement of its two patents and the actions were ultimately consolidated.

Extensive discovery was taken. Over a three-year period, 27 witnesses were deposed and over 30,000 pages of documents were produced. A pretrial order was entered by Judge Conner in January 1975 (Exhibit 3), and trial was set to commence on March 10, 1975.

Comprehensive pretrial briefs, glossaries, etc. were exchanged on February 21, 1975. Discovery had established that there was no serious issue as to plaintiffs' infringement of Allied Chemical's two patents, and that plaintiffs had willfully and deliberately begun to manufacture and sell Red 40 after Allied Chemical declined to grant either of them a license to do so.

Trial commenced on March 10, 1975. Each party assembled and had in readiness an array of fact and expert witnesses. Extensive files and exhibits were physically moved into Judge Conner's courtroom for use during trial. At the outset of trial,

* H. Kohnstamm & Company, Inc. v. Allied Chemical Corporation, 72 Civ. 301 (WCC) and Warner-Jenkinson Company v. Allied Chemical Corporation, 72 Civ. 302 (WCC).

however, Judge Conner called counsel for the parties into his robing room, said that he had read the pretrial submissions of the parties, and actively initiated settlement discussions. There ensued a series of settlement meetings with Judge Conner, sometimes with counsel for both sides present, sometimes with counsel for only one side present, and sometimes with only officers of the parties present. As a result, on March 11, 1975, the parties agreed in principle to settle their controversy on the basis of a \$200,000 payment for past infringement and a royalty of 17-1/2% for continued manufacture, use and sale of Red 40.

D. The Settlement Papers

The parties negotiated detailed settlement papers over the next four-month period.* At first, Allied Chemical asked for a consent judgment. Plaintiffs declined to enter into a consent judgment with respect to defendant's two patents but agreed to a dismissal with prejudice as to plaintiffs' allegations of unfair competition and agreed that the license agreements, which were to be entered into in connection with the dismissal without prejudice of plaintiffs' declaratory judgment actions, could not be terminated for two years.

The bargain ultimately struck between the parties is embodied in four documents:

1. Stipulation and Order signed by Judge Conner on July 23, 1975 (Exhibit 4);

* The parties exchanged numerous drafts and, in an effort to resolve issues in controversy between the parties, an additional settlement conference was held by Judge Conner on May 9, 1975.

2. Settlement Agreement, effective as of March 1, 1975, between Allied Chemical, Kohnstamm and Warner-Jenkinson (Exhibit 5);
3. License Agreement, effective as of March 1, 1975, between Allied Chemical and Warner-Jenkinson (Exhibit 6); and
4. License Agreement, effective as of March 1, 1975, between Allied Chemical and Kohnstamm (Exhibit 7).

In return for a release from liability for past infringement, Warner-Jenkinson and Kohnstamm agreed to pay Allied Chemical a lump-sum figure of \$200,000 (Exhibit 5, ¶¶ 1, 2). Allied Chemical agreed to grant licenses under the '617 and '733 patents, for plaintiffs' continued manufacture, use and sale of Red 40, at a royalty of 17-1/2% (Exhibit 5, ¶ 3; Exhibits 6 & 7, ¶ 3.1). And Warner-Jenkinson and Kohnstamm agreed to release Allied Chemical from all liability based on plaintiffs' claims for alleged unfair competition (Exhibit 5, ¶ 4).

In accord with these agreements, on July 23, 1975, Judge Conner dismissed, without prejudice, Warner-Jenkinson's and Kohnstamm's declaratory judgment actions and Allied Chemical's counterclaims with respect to the '617 and '733 patents and dismissed, with prejudice, Warner-Jenkinson's and Kohnstamm's claims for alleged unfair competition (Exhibit 4).

The license agreements included customary provisions for termination by Allied Chemical in the event of non-performance by Warner-Jenkinson and Kohnstamm (Exhibits 6 & 7, ¶ 4.2). To prevent plaintiffs from promptly reinstituting their actions, the license agreements specified that Warner-Jenkinson and Kohnstamm could not terminate their obligations to pay royalties for two years (Id., ¶ 4.1).

Significantly, neither license agreement authorized the deposit of royalties in escrow pendente lite in the event that either plaintiff contests the validity, etc. of the '617 and '733 patents. To the contrary, each license agreement expressly provides that, in the event it is not terminated, the obligation to pay royalties terminates only after the licensed patents are held invalid, or interpreted in such a manner as not to cover the licensee's activities, by any Court of final jurisdiction from whose decision no appeal has or can be taken (Exhibits 6 & 7, ¶ 7).*

E. The Delistment of Red 2

As we read paragraphs 16 and 17 of the complaint, plaintiffs contend that, although the 17-1/2% royalty was unobjectionable when plaintiffs agreed to pay it in settlement of the 1975 litigation, it has become "excessively high," and thus a "restraint of trade," a "misuse of patent rights" and "unfair competition" because the 1976 ban of F.D. & C. Red No. 2 ("Red 2") will result in more general use of Red 40 (complaint, ¶¶ 16-17).

* The only condition under which plaintiffs are authorized to pay royalties into escrow is in the event that Allied Chemical files a suit, or otherwise asserts its patents, to terminate the sale or offer for sale of non-licensed Red 40 (Exhibits 6 & 7, ¶ 12.2).

Plaintiffs' contention is unsound as a matter of law.* In any event, the relevant facts make plain that plaintiffs were well aware of the possible delistment of Red 2, and the consequences with respect to Red 40, prior to settlement of the earlier litigation. As set forth in the proposed findings of fact plaintiffs submitted to Judge Conner, less than two weeks before plaintiffs agreed to settle that litigation at the 17-1/2% royalty:

* As stated, for example, in W. L. Gore & Associates, Inc. v. Carlisle Corp., 529 F.2d 614, 623 (3 Cir. 1976), where the patentee had sought a 30% royalty, far higher than the royalty provision of the judicially-sanctioned license agreements between plaintiffs and Allied Chemical:

"The general rule is that, absent any overriding unlawful conduct, 'A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.' Brulotte v. Thys Co., 379 U.S. 29, 33, 85 S.Ct. 176, 179, 13 L.Ed.2d 99 (1964); LaSalle Street Press, Inc. v. McCormick & Henderson, Inc., 445 F.2d 84, 95 (7th Cir. 1971); Carter-Wallace, Inc. v. United States, 449 F.2d 1374, 1383, 196 Ct.Cl. 35 (1971)."

The fact that a 17-1/2% royalty is not excessively high is confirmed by the Hilton-Davis license agreement (Exhibit 8) in which, after the delistment of Red 2, Hilton-Davis Chemical Co. (a division of Sterling Drug Inc.) agreed to pay \$100,000 plus a 17-1/2% royalty to manufacture, use and sell Red 40.

"20. Shortly after the allowance of Allied's '617 patent, but prior to the listing of the dye as an approved food color by the FDA, a Russian publication reported that FD&C Red No. 2 (the most widely used food color in the U.S.) caused deleterious health effects in test animals. Allied submitted copies of the Russian work to the FDA, together with English translations thereof.

* * *

"22. In October 1971, the FDA announced that it was going to either delist or severely restrict the use of FD&C Red No. 2 in the United States by December 31, 1971. The FDA announcement stunned the industry--both color manufacturers and users, and caused a precipitous decline in the manufacture and sale of FD&C Red No. 2 in the latter part of 1971.

"23. If the FDA, as it had announced, prohibited or restricted the use of FD&C Red No. 2, then FD&C Red No. 3 and FD&C Red No. 40 would have remained the only permissible red food dyes for unrestricted use in the United States.

* * *

"29. In 1964 the FDA announced that it was going to delist FD&C Red No. 4, a general purpose scarlet-red dye which at that time was sold in the quantity of about 300,000 pounds per year. About five years earlier, the FDA had delisted another scarlet-red dye, FD&C Red No. 1, which, at the time of its delisting, was sold at a rate of about 200,000 pounds per year.

* * *

"139. The FDA announcement, in late 1971, anticipating the delisting of FD&C Red No. 2 produced a state of distress in the industry. FD&C Red No. 2 had been used for a half-century. The value of the food products in which FD&C Red No. 2 was (and is) used has been estimated to be worth tens of billions of dollars in an average year. FD&C Red No. 40 appeared to be a replacement for FD&C Red No. 2 in many volume uses for red dyes.

Although FD&C Red No. 3 was also available, it suffered a stability deficiency when used in beverages and consequently could not be used as a substitute for FD&C Red No. 2 in the large market for red dyes in carbonated beverage use. Thus, FD&C Red No. 40, originally envisioned as a mere specialty color to replace FD&C Nos. 1 and 4 became, in essence, the only red dye available - by governmental fiat."

II. THIS COURT LACKS JURISDICTION OVER THE
SUBJECT MATTER OF THIS ACTION

A. There Is No Actual, Justiciable
Controversy Between the Parties,
28 U.S.C. §§ 2201, 2202

Declaratory judgments are provided for in Title 28,
United States Code, Section 2201:

"In a case of actual controversy within its jurisdiction, ... any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration...."

If there is no "actual controversy" the jurisdictional averments are appropriately challenged by a motion under Rule 12(b)(1), F.R.Civ.P. For example, as stated by Chief Judge Edelstein in Hollywood Associates v. Morris, 13 F.R.D. 141, 142 (S.D.N.Y. 1952):

"In this action for a declaratory judgment on a patent matter, the defendant has moved to dismiss upon the ground that there is no controversy between plaintiff and defendant. While not specifically labeled, the motion is one under Rule 12(b)(1) of the Federal Rules of Civil Procedure, 28 U.S.C.A., based upon a lack of jurisdiction over the subject matter. The existence of an actual controversy is necessary to establish jurisdiction under the Federal Declaratory Judgment Act, 28 U.S.C.A. §§ 2201, 2202, and this motion is an appropriate manner to challenge the allegations of jurisdictional fact."

Accord, Perry v. Continental Can Company, Inc., No. 75 Civ. 4088 (S.D.N.Y. March 19, 1976).

Like all declaratory judgment plaintiffs, if challenged, Warner-Jenkinson and Kohnstamm have the burden of establishing that they have met the "actual controversy" requirement of § 2201. E.g., McNutt v. General Motors &c. Corp., 298 U.S. 178, 189 (1936); Central Mexico Light & Power Co. v. Munch, 116 F.2d 85, 87 (2 Cir. 1940). Whether or not plaintiffs satisfy that burden must be determined "on a case by case basis". Wembley, Inc. v. Superba Cravats, Inc., 315 F.2d 87, 89 (2 Cir. 1963).

The Court of Appeals for this Circuit has made it plain in connection with declaratory judgment suits relating to patents that a charge of infringement must have been made, directly or indirectly, or at least that there be some reasonable apprehension of suit by the patent owner. E.g., Dr. Beck & Co. G.M.B.H. v. General Electric Company, 317 F.2d 538, 539 (2 Cir. 1963). Accord, Blessings Corporation v. Altman, 373 F.Supp. 802, 805 (S.D.N.Y. 1974).

Plaintiffs' complaint contains no averment to the effect that Allied Chemical has, at any time subsequent to the settlement of the prior litigation, renewed its charge that Warner-Jenkinson, Kohnstamm, or their customers have infringed the '617 or the '733 patents. The fact is that Allied Chemical cannot make such a charge because plaintiffs have at all times since that settlement been licensed by Allied Chemical to manufacture, use and sell Red 40 and to pass on to their customers immunity from liability for use of licensed Red 40 (Exhibits 6 & 7, ¶ 2.1). It is elementary that a licensor cannot charge his licensee with infringe-

ment as to the licensed product. W. R. Grace & Co. v. Union Carbide Corporation, 319 F.Supp. 307, 312 (S.D.N.Y. 1970); MacGregor v. Westinghouse Electric & Mfg. Co., 45 F.Supp. 236, 237 (W.D.Pa. 1942), aff'd per curiam, 130 F.2d 870 (3 Cir. 1942). Thus it is clear that Allied Chemical did not, and as a matter of law could not, charge Warner-Jenkinson and Kohnstamm with infringement by virtue of their manufacture, use or sale of Red 40.

It is also axiomatic that Allied Chemical cannot sue plaintiffs or their customers for infringement of the licensed patents, for the manufacture, use or sale of Red 40, until such time as the existing license agreements are terminated. De Forest Co. v. United States, 273 U.S. 236 (1927); Arvin Industries, Inc., v. Berns Air King Corporation, 510 F.2d 1070 (7 Cir. 1975).

Under closely related circumstances the Court of Appeals for the Third Circuit affirmed, inter alia, a District Court's dismissal of a declaratory judgment action brought by a licensee who sought to have the licensed patent declared invalid and not infringed. Thiokol Chemical Corp. v. Burlington Industries, Inc., 448 F.2d 1328 (3 Cir. 1971) ("Thiokol III"), cert. denied, 404 U.S. 1019 (1972), affirming in relevant part, 313 F.Supp. 253 (D.Del. 1970) ("Thiokol I") and 319 F.Supp. 218 (D.Del. 1970) ("Thiokol II").

In Thiokol I, suit had been brought by the licensee prior to termination of the license agreement. Judge Wright dismissed the complaint for lack of subject matter jurisdiction on the grounds that there was no justiciable controversy and the action did not arise under the patent laws. With respect to the first ground for dismissal,* Judge Wright stated (313 F.Supp. at 255):

"The purpose of a license agreement is to insulate those who pay for the use of patented processes or products from infringement charges and the burden of litigation. There are three situations only when a licensee could be charged with infringement: (a) the allegedly infringing devices are not covered by the license; (b) the license has expired; or (c) plaintiff has repudiated the license. ... None of those conditions is present in the instant case."

Thiokol II confirmed the result of Thiokol I. In Thiokol II, commenced after termination of the license agreement, Judge Wright found that termination of the license created an actual controversy between the parties. The sole factual distinction between Thiokol I and II was the termination of the license agreement (319 F.Supp. at 220).

Judge Wright's decision in Thiokol I was expressly approved by this Court in W.R. Grace & Co. v. Union Carbide Corporation, 319 F.Supp. 307, 313 (S.D.N.Y. 1970):

* The second ground for dismissal (lack of "arising under" jurisdiction), and this Court's endorsement of that ground, is discussed in Section II(B) of this memorandum.

"[T]his Court is persuaded by the reasoning in Thiokol, supra, especially in light of the decisional history and purpose of extending the declaratory judgment remedy to alleged patent infringers. [footnote omitted]. Carbide is obviously unable to charge Grace or its customers with infringement and thereby force them to accept a license on a patent of questionable validity since Grace already is a licensee and apparently intends to remain such. Thus, any purported interest by Grace in the validity of the patent would appear to be academic."

It is clear that both Warner-Jenkinson and Kohnstamm intend to remain as licensees during the pendency of this action (complaint, ¶ 15; affidavit in support of order to show cause, ¶ 3(c)(v)).* In substance, they are asking for an advisory opinion that the royalty they agreed to pay in settlement of the earlier litigation is too high. As in Grace, plaintiffs' interest in the patents in suit is "academic" and, as in Grace, this action

* Indeed, plaintiffs' proposal that royalties be paid in escrow demonstrates that plaintiffs affirmatively wish to keep the 1975 license agreements alive. But if the Court orders such an escrow arrangement, the Court's order, according to plaintiffs, would amount to a declaration that the payment of royalties into escrow "is in performance of plaintiffs' payment obligations under the license agreements" (Plaintiffs' Memorandum in Support of Their Proposed Order to Deposit Royalties in Escrow, p. 2). If the escrow arrangement satisfies the payment requirement of the license agreements, then plaintiffs would not be in breach and Allied Chemical could not have a basis for either an infringement action or a contract action. Accordingly, there would not be an "actual controversy" upon which to base plaintiffs' complaint.

The conclusion is inescapable, regardless of the outcome of the escrow matter, that there cannot be an actual controversy as to the licensed patents as long as the license agreements are in force.

should be dismissed for lack of a justiciable controversy.*

Warner-Jenkinson and Kohnstamm cannot rely on Allied Chemical's pre-1975 settlement charge of infringement to establish a current justiciable controversy. In Grace, 319 F.Supp. at 310-11, this Court specifically held that a prior charge of infringement, which results in a license agreement, cannot serve as the justiciable predicate for a later declaratory judgment action between the same parties relating to the validity of the licensed patent:

"The only evidence that a controversy exists between the parties concerning the validity and scope of the patents is a suit filed by Carbide in 1960 against Grace and one of its customers for infringement of the patents in question. Although such charge, coupled with commencement of a suit would normally be the basis for a federally cognizable controversy, [footnote omitted] the parties apparently intended to avoid litigation by entering into a licensing agreement. Grace is apparently attempting to resurrect the 1960 suit and controversy merely that they may serve as the bases for the present declaratory judgment action. Despite the liberal construction given to the term 'actual controversy', this Court does not view the 1960 action, to which Grace responded by entering into a licensing agreement with Carbide, as a legitimate basis for the present action.... Since there is no evidence that a current controversy exists between the parties, concerning the validity and scope of Carbide's patents, the issues raised by the instant complaint appear to be academic."

Warner-Jenkinson and Kohnstamm attempt to create the im-

* Plaintiffs seek, also, a declaratory judgment that "as a consequence of the invalidity of the patents" the license agreements entered into in settlement of the earlier litigation are void and unenforceable (complaint, prayer for relief, ¶ B). Accordingly, the lack of a justiciable controversy with respect to the validity of defendant's patents also forecloses subject matter jurisdiction as to a declaratory judgment regarding the license agreements.

pression of an "actual controversy" by averring (complaint, ¶ 19) that:

"Controversy exists between the parties in which plaintiffs seek a declaration of their rights respecting defendant's...patents. Plaintiffs have been, are and will continue to be damaged in their business and property, and the public deprived of full and fair competition, unless United States Patents Nos. 3,519,617 and 3,640,733 are declared invalid, unenforceable, and not infringed by the manufacture, use or sale of F.D.&C. Red No. 40 by plaintiffs or its customers...."

This attempt by plaintiffs must fail; conclusory statements of "damage to business" and "deprivation of full and fair competition" cannot, absent more, give rise to an actual, justiciable controversy under the declaratory judgment provisions of the Federal Code.

Pertinent in this connection is Goodrich-Gulf Chemicals, Inc. v. Phillips Petroleum Co., 247 F.Supp. 158 (N.D.Ohio 1965), aff'd, 376 F.2d 1015 (6 Cir. 1967), in which plaintiff sought a declaration that defendant's patent was invalid. Because, as here, no charge of infringement had been made (247 F.Supp. at 160), plaintiff was forced to allege that an actual controversy existed because defendant's patent somehow impaired plaintiff's ability to license and market its own invention (247 F.Supp. at 159). The Court, after careful consideration of the authorities, dismissed the suit, for lack of a justiciable controversy (247 F.Supp. at 160). See also Perry v. Continental Can Company, Inc., No. 75 Civ. 4088 (S.D.N.Y. March 19, 1976) citing Goodrich-Gulf with approval, and also Tubeco, Inc. v. Crippen Pipe Fabrication Corporation, 402 F.Supp. 838, 845 (E.D.N.Y. 1975) ("'fearful conjecture' as to future infringement proceedings does not create a present controversy").

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Plaintiffs may contend that, notwithstanding the decision in Thiokol, and this Court's adoption of that decision in Grace, this Court should find a "justiciable controversy" on the authority of such decisions as Medtronic, Inc. v. American Optical Corporation, 327 F.Supp. 1327 (D. Minn. 1971) and American Sterilizer Co. v. Sybron Corp., 526 F.2d 542 (3 Cir. 1975).

Unlike the present situation, however, in Medtronic and in American Sterilizer there was a justiciable controversy concerning the question of whether new and different products and processes were subject to pre-existing license agreements.* There is no controversy, here, with respect to new products because plaintiffs' complaint is directed to the same product (Red 40). The license agreements specifically define "Licensed Food Colors" as including Red 40 (Exhibits 6 & 7, ¶ 1.1) and grant to plaintiffs licenses "under United States Patents Nos. 3,519,617 and 3,640,733 to manufacture, to use and to sell...Licensed Food Colors" (Id., ¶ 2.1). Plaintiffs admittedly manufacture and sell Red 40 (e.g., complaint, ¶¶ 7, 18).

Dismissal of Warner-Jenkinson's and Kohnstamm's complaint is in no way precluded by the decision of the Supreme

* The decision in Medtronic rested importantly on the facts that (a) a justiciable controversy was created by the licensor's letter, and threat of suit against another party, to the effect that the new product infringed the licensed patent, and (b) the Court's jurisdiction for a suit on the license agreement was supported by diversity of citizenship (327 F.Supp. at 1331, 1333-34). The presence of a "justiciable controversy" was not questioned as to the new process in American Sterilizer, and apparently diversity jurisdiction was present with respect to the suit on the license agreement (Count III) (526 F.2d at 544 n.3, 549 n.13).

Court in Lear, Inc. v. Adkins, 395 U.S. 653 (1969),* in which the highly-eroded doctrine of licensee estoppel was finally put to rest. The question of "actual controversy," and hence subject matter jurisdiction, before this Court on the present motion has nothing to do with that of licensee estoppel. Furthermore, there was no question with respect to "actual controversy" in Lear because Lear originated as a state court action for payment of royalties withheld in breach of a license agreement. Lear did not, and could not, increase or decrease the subject matter jurisdiction of this Court.

Furthermore, the Supreme Court's elimination of the doctrine of licensee estoppel in Lear does not preclude a bargained-for provision in a license agreement not to terminate the agreement before a limited (in this case, two years) time, particularly where, as here, that provision is part of an overall settlement of litigation. As stated in Aro Corp. v. Allied Witan Co., 531 F.2d 1368, 1373 (6 Cir. 1976):

"Whatever boon Lear may have provided those who take licenses under certain conditions, it cannot be interpreted so broadly as to condone a kind of gamesmanship, wherein an alleged infringer, after employing the judicial system for months of discovery, negotiation and sparring, abandons its challenge to validity, executes a license in settlement, and then repudiates the license and seeks to start the fight all over again in the courts. Lear does not require that the courts answer every beck and call of the fickle suitor whose transient affection is governed by such on-again, off-again strategies. The mantle of Lear ill befits him who would use and reuse the courts as pawns in a private game of varying design. The 'defender of the public interest' role is not available to him who would frustrate on whim the orderly conclusion of litigation."

* Cited in plaintiffs' memorandum and at ¶ 4 of the affidavit in support of plaintiffs' application for an order to show cause.

B. This Action Does Not Arise Under the Constitution, Laws or Treaties of the United States, Nor Does It Arise Under Any Act of Congress Relating to Patents, 28 U.S.C. §§ 1331, 1338

The complaint (§ 5) avers that this Court has jurisdiction of this action, inter alia, pursuant to 28 U.S.C. §§ 1331, 1338. These statutes provide, in pertinent part:

28 U.S.C. § 1331

"(a) The district courts shall have original jurisdiction of all civil actions wherein the matter in controversy...arises under the Constitution, laws, or treaties of the United States."

28 U.S.C. § 1338

"(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents....

"(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the...patent...laws."

The complaint does not suggest any provision of the federal Constitution or laws under which plaintiffs can be seeking

relief other than the federal laws relating to patents, Title 35, United States Code. To the extent that the complaint adequately sets forth any claim for unfair competition, and because diversity jurisdiction is not present (infra, pp. 30-35), federal jurisdiction over that claim is controlled by 28 U.S.C. § 1338(b). As stated in Tubeco, Inc. v. Crippen Pipe Fabrication Corporation, 402 F.Supp. 838, 843 (E.D.N.Y. 1975):

"The [unfair competition claim] is, of course, a claim wholly dependent for jurisdictional purposes upon the substantiality of the related patent invalidity claim."

Consequently, the issues under sections 1331 and 1338 are identical: does plaintiffs' declaratory judgment action arise under the patent laws? The answer to that question is no.

A determination of the law under which the action arises requires consideration of the complaint. "A suit arises under the law that creates the cause of action." American Well Works Co. v. Layne, 241 U.S. 257, 260 (1916) (Holmes, J.). Thus, while an action for patent infringement arises under the federal patent laws, an action to enforce an agreement to pay royalties for use of a patent would not arise under the patent laws. E.g., Lockett v. Delpark, 270 U.S. 496, 502, 510 (1926); Arvin Industries, Inc. v. Berns Air King Corporation, 510 F.2d 1070, 1072-3 (7 Cir. 1975).

However, a declaratory judgment action is the reverse of the usual situation. The declaratory plaintiff is, in effect, seeking to establish the merit of a defense to a threatened action by the defendant. Consequently, because it is the underlying threat of action by the defendant which creates the controversy, the nature of that threatened action also determines under what law the declaratory judgment action arises. This was the ruling of the Supreme Court in Public Serv. Comm'n v. Wycoff Co., 344 U.S. 237, 248 (1952):

"Where the complaint in an action for declaratory judgment seeks in essence to assert a defense to an impending or threatened state court action, it is the character of the threatened action, and not of the defense, which will determine whether there is federal-question jurisdiction in the District Court. If the cause of action, which the declaratory defendant threatens to assert, does not itself involve a claim under federal law, it is doubtful if a federal court may entertain an action for a declaratory judgment establishing a defense to that claim. This is dubious even though the declaratory complaint sets forth a claim of federal right, if that right is in reality in the nature of a defense to a threatened cause of action. Federal courts will not seize litigations from state courts merely because one, normally a defendant, goes to federal court to begin his federal-law defense before the state court begins the case under state law."

Because plaintiffs are licensees under license agreements which have not been terminated, see supra, pp. 13, 16, the only remedy which would be available to Allied Chemical for plaintiffs' nonpayment of royalties would be a contract action for specific performance. Consequently, plaintiffs' present action is no more

than an attempt to assert a defense to an anticipated contract action by Allied Chemical. Applying the Wycoff rule, supra, it follows that plaintiffs' complaint arises under the same law which would control a contract action brought by Allied Chemical. That law is state contract law, not the federal patent laws. Accordingly, this action cannot be one "arising under" the patent laws.

This was the second ground for the Court's decisions in Thiokol, supra, pp. 14-15. In Thiokol I, plaintiff-licensee sued for a declaratory judgment of invalidity and non-infringement of defendant-licensor's patents. Judge Wright concluded (313 F.Supp. at 256) that the existence of the license agreement at the time the action was brought precluded the existence of federal jurisdiction under § 1338(a):

"The rights and remedies of these parties are controlled by the state law of contract which they chose to invoke.

* * *

"In the instant case, as in Wycoff, the realistic position of the parties is reversed, and the plaintiff seeks to have this Court declare that it has a valid defense to defendant's state court contract suit. This action is not one arising under the patent laws."

In Thiokol II, Judge Wright reaffirmed the reasoning of Thiokol I. Because the license agreement had been terminated prior to the filing of the complaint in Thiokol II, the Court concluded that the complaint stated a claim arising under the patent laws (319 F.Supp. at 220-22):

"It should be clear from the Court's opinion in the first case [Thiokol I] that the decision was premised on the fact that since the licensing agreement between the plaintiff and defendant Burlington was still in effect at the time suit was filed it was theoretically and practically impossible for the defendant to have 'charged' the plaintiff with infringement.... Since the legal barrier to a 'charge of infringement' is eliminated in this action, the question becomes whether the statements and activities of the defendants amount to a charge of infringement within the meaning of the relevant case law.

* * *

"[T]he circumstances...in this dispute warrant a finding that there exists an actual federal controversy arising under the patent laws."

In Thiokol III, the Third Circuit explicitly approved both opinions by Judge Wright on this point, stating (448 F.2d at 1331):

"The termination of the license agreement removed the obstacle to federal jurisdiction that precluded the maintenance of the first suit."

Applying the Thiokol decisions to our facts, it is apparent that Warner-Jenkinson and Kohnstamm must make an election. If they retain the benefits of their license agreements, as they seek to do, there is no basis for an action arising under the patent laws. If plaintiffs wish to establish subject matter jurisdiction by virtue of the patent laws, they must first terminate their license agreements.

Apposite here is W.R. Grace & Co. v. Union Carbide Corporation, 319 F.Supp. 307, 312 (S.D.N.Y. 1970):

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"Since in a declaratory judgment action it is the nature of the impending state action which determines whether federal-question jurisdiction exists, and since it is well established that an action on a patent license agreement for royalties does not arise under the patent laws, this Court is without jurisdiction of the instant action. That is, since Grace has essentially asserted a defense to the pending state action of Carbide for royalties due under the license agreement, 'federal-question jurisdiction' is obviously lacking."

There is no prior state court action brought by Allied Chemical against plaintiffs here, as there was in Grace. However, until the license agreements are terminated the only actions which Allied Chemical can bring, absent diversity, are contract actions in state court for payment of royalties. It follows that Grace is controlling on our facts and requires a holding that this Court lacks subject matter jurisdiction under 28 U.S.C. §§ 1331, 1338.

That Allied Chemical would be limited, until the license agreements are terminated, to state court actions on the contract is apparent from the recent decision in Arvin Industries, Inc. v. Berns Air King Corporation, 510 F.2d 1070 (7 Cir. 1975). Arvin was an action by a licensor based upon defendant-licensee's nonpayment of royalties. Plaintiff pleaded the existence of the license agreement and sought an injunction against "further infringement", as well as "damages for infringement". The Court of Appeals concluded that the District Court did not have jurisdiction of the controversy under § 1338(a) and vacated the District Court's earlier judgment in favor of plaintiff, stating (510 F.2d at 1073):

"In the case at bar, plaintiff alleged in its complaint the existence of a license agreement which authorized the very use of the patent of which it complained. While the conclusion of infringement was pleaded, the facts that were also pleaded showed that there was no infringement because the defendant's use of the patent was authorized by the agreement. The complaint thus revealed that plaintiff was not entitled to claim infringement but could only enforce its rights under the still existing license agreement. United Mfg. & Serv. Co. v. Holwin Corp., 187 F.2d 902, 905 (7th Cir. 1951). Those were rights conferred by state law, and could not be the basis for federal jurisdiction."

The recent decision in Hanes Corp. v. Millard, 531 F.2d 585 (D.C. Cir. 1976) does not support patent law jurisdiction here. In Hanes, defendants had assigned a patent to plaintiff and contended that they were owed royalties by plaintiff. Plaintiff sought a declaratory judgment that the patent did not cover products for which royalties were sought. The Court of Appeals, in a lengthy footnote (531 F.2d at 594, n.8), generalized that "[o]ther federal courts have consistently entertained jurisdiction over suits seeking declarations of patent invalidity or non-infringement" and questioned Thiokol III for that reason*.

* Of the cases relied on by the Hanes Court, only two involved a licensee-plaintiff who had not terminated or repudiated his license agreement.

One case was Medtronic, which is not pertinent to "arising under" jurisdiction because of the presence, there, of diversity jurisdiction. See discussion at page 19, supra. The other was JFD Electronics Corp. v. Channel Master Corp., 229 F.Supp. 514 (S.D.N.Y. 1964), another action for a declaratory judgment in which a plaintiff-licensee contended that the license agreement did not

[footnote continued on next page]

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Hanes is distinguishable on its facts because, like Medtronic, the declaratory plaintiff contended that his product was not covered by the assigned patent. Here, Warner-Jenkinson's and Kohnstamm's Red 40 are indisputably covered by the 1975 license agreements. And the Hanes Court virtually conceded that if, as here, the licensee's product is covered by both the patent and the license, the issue of patent validity alone would not support federal jurisdiction over a licensee's declaratory judgment action (531 F.2d at 595 n.8):

"It is less certain that the question of patent validity, if considered independently of any question of infringement or scope of the patent, would have to be raised as a matter of orderly pleading and proof in a coercive action by the [assignors] for royalties. For a patent having been issued, it is presumed valid, 35 U.S.C. § 282 (1970), and hence the question

[footnote continued from preceding page]

cover plaintiff's product. This Court has held, in the Grace decision, that JFD is inapplicable to an action such as the one at bar (319 F.Supp. at 312):

"One significant difference between [JFD] and the instant suit is that in JFD, supra, there was a clear charge of infringement against the licensee by the patentee....The instant action, however, is on the license agreement and does not require a showing that the patents are invalid or not infringed. Moreover, there has been no infringement charge against Grace by Carbide. Accordingly, I find this Court without federal-question jurisdiction over the instant action. Thiokol Chem. Corp. v. Burlington Indus., Inc., 313 F.Supp. 253 (D.Del. May 25, 1970)."

of validity would be a matter to be raised by defense rather than as part of plaintiff's case in chief. Thus, it might well be argued that where a declaration of invalidity alone is sought, there is no 'arising under' jurisdiction."

The abolition of licensee estoppel, in Lear, does not change this result. As stated in Thiokol I (313 F.Supp. at 256)*:

"The rights and remedies of these parties are controlled by the state law of contract which they chose to invoke. Federal questions will likely be reached in the state litigation, but it will take more than the abolition of licensee estoppel to convert those questions into a case 'arising under' the patent laws of the United States."

* This Court's endorsement of the reasoning in Thiokol I is discussed at pp. 15-16, supra.

C. This Is Not an Action Between Citizens
of Different States, 28 U.S.C. § 1332

1. There Is No Complete Diversity
of Citizenship

Plaintiffs aver, inter alia, that this Court has jurisdiction over the subject matter of this action based on 28 U.S.C. § 1332, which provides in part:

"(a) The district courts shall have original jurisdiction of all civil actions where the matter in controversy...is between--
(1) citizens of different States....

* * *

"(c) For the purposes of this section... a corporation shall be deemed a citizen of any State by which it has been incorporated...."

It is well-settled that this statute requires complete diversity between all parties plaintiff and all parties defendant. No adverse parties may be citizens of the same state. E.g., State Farm Fire & Cas. Co. v. Tashire, 386 U.S. 523, 531 (1967); Indianapolis v. Chase National Bank, 314 U.S. 63, 69 (1941); Strawbridge v. Curtiss, 7 U.S. (3 Cranch) 266 (1806); Schultz v. Cally, 528 F.2d 470 (3 Cir. 1975).

In the present action, both plaintiff Kohnstamm and defendant Allied Chemical are New York corporations (complaint, ¶¶ 2,3), and thus New York citizens (28 U.S.C. § 1332(c)). Consequently, there is no diversity jurisdiction for plaintiffs' complaint.

2. Plaintiffs Cannot Substitute Intervention
Procedures or Pendent or Ancillary
Jurisdiction for Diversity Jurisdiction

Plaintiffs' complaint includes the unusual averment that (§ 6):

"Kohnstamm alternatively moves, and does hereby move, to intervene as a plaintiff in the action Warner-Jenkinson Company v. Allied Chemical Corporation and does hereby adopt as its motion to intervene and its Complaint against Allied that set forth herein."*

Intervention is controlled by Rule 24, F.R.Civ.P., which provides in pertinent part:

"(a) Intervention of Right. Upon timely application anyone shall be permitted to intervene in an action... (2) when the applicant claims an interest relating to the property or transaction which is the subject of the action and he is so situated that the disposition of the action may as a practical matter impair or impede his ability to protect that interest, unless the applicant's interest is adequately represented by existing parties.

"(b) Permissive Intervention. Upon timely application anyone may be permitted to intervene in an action... (2) when an applicant claims a right or defense and the main question is a question of law or fact in common...."

Kohnstamm cannot intervene as of right, pursuant to Rule 24(a)(2). Neither Warner-Jenkinson nor Kohnstamm, as non-exclusive licensees, has any interest in Allied Chemical's patents; a non-exclusive license is no more than a covenant

* This assumes, incorrectly, that the present action is two actions and, perhaps, explains the "double box" caption resorted to by plaintiffs in their complaint.

not to sue for infringement and gives the licensee "no property interest in the monopoly of the patent." Western Electric Co. v. Patent Reproducer Corporation, 42 F.2d 116, 118 (2 Cir. 1930), cert. denied 282 U.S. 873 (1930). Accord, N.V. Philips' Gloeilampenfabrieken v. Atomic Energy Com'n, 316 F.2d 401, 409 (D.C. Cir. 1963). If any "property or transaction," within the meaning of Rule 24(a)(2), is the subject of Warner-Jenkinson's action, it is Warner-Jenkinson's license agreement and its rights and duties thereunder, in which Kohnstamm has no legal interest.

The disposition of Warner-Jenkinson's claim cannot "impair or impede" Kohnstamm's ability to protect its purported interest. A holding of patent validity in favor of Allied Chemical and against Warner-Jenkinson will not bind Kohnstamm. Smith-Corona Marchant, Inc. v. American Photocopy Equipment Co., 6 F.R. Serv. 2d 492, 494 (S.D.N.Y. 1963) (motion to intervene denied under predecessor Rule 24(a)(2)). A holding of invalidity will end the matter. Blonder-Tongue v. University Foundation, 402 U.S. 313 (1971).

Finally, there is nothing to suggest that plaintiff Kohnstamm's interest, whatever it might be, is not adequately represented by plaintiff Warner-Jenkinson. To the contrary, both plaintiffs are represented by the same trial counsel and thus we have every reason to presume that there is no conflict between the interests of plaintiffs.

There is no basis for permissive intervention by Kohnstamm, pursuant to Rule 24(b)(2), because of the well-settled requirement of independent subject matter jurisdiction over the permissive intervenor's claim. As this Court held in Isbrandtsen Co. v. S.S. Kokoh Maru, S.S. Kochu Maru, 263 F.Supp. 784, 786 (S.D.N.Y. 1966):

"Intervention should not be allowed to so expand federal jurisdiction. See, Rule 82, F.R. Civ.P...."*

As observed in 7A Wright & Miller, Federal Practice & Procedure, § 1917, p. 593 (1972 ed.):

"The rule of complete diversity would be virtually obliterated, and the federal courts would be burdened with the decision of many matters that are properly the business of the state courts, if so tenuous a relationship as the existence of a common question of fact or law were enough to dispense with ordinary requirements of jurisdiction and permit litigants to have their independent claims or defenses tried in federal court though, absent intervention, they would not have been able to do so." (footnote omitted)**

The abuse that would result from permitting this sort of contrived intervention was recognized in Gentry v. Hibernia Bank, 154 F.Supp 62 (N.D. Cal. 1956). In Gentry, two Oregon plaintiffs sued a California defendant, establishing diversity jurisdiction. In what the Court described as an "adroit pro-

* Rule 82 states: "These rules shall not be construed to extend or limit the jurisdiction of the United States district courts...."

** See also Babcock & Wilcox Company v. Parsons Corporation, 430 F.2d 531, 540 (8 Cir. 1970); Hougen v. Merkel, 47 F.R.D. 528, 530 (D.Minn. 1969). Compare Poloron Prod., Inc. v. Lybrand, Ross Bros. & Montgomery, 66 F.R.D. 610, 615 (S.D.N.Y. 1975).

cedural maneuver to synthesize...jurisdiction" (154 F.Supp at 63), the Oregon attorneys simultaneously filed a motion for leave to intervene on behalf of 59 Californians, as to whom no diversity existed. The Court's comments, in denying the motion, are controlling here (Ibid.):

"There is no doubt that the pleadings show questions of fact and law common to both the complaint and the 'applicants' claims. But there is also no doubt that the 59 are not in truth or in fact intervenors in any sense whatever. They are just plain plaintiffs. The so-called interventions are only for the purpose of avoiding the jurisdictional barrier, and not in the real spirit of intervention, as recognized in the rules and decisions.

* * *

"Without more, under these circumstances, it is sufficient to say that we are busy enough with legitimate federal causes, not to be bothered with local litigation, artfully, but not very successfully, dressed up in federal habiliments."

Plaintiffs' last-ditch reliance on the doctrines of ancillary and pendent jurisdiction is without merit. Because of the absence of a justiciable controversy, there is nothing to which any claim before this Court can be ancillary or pendent.* The same result is dictated by the absence of "diversity" and "arising under" jurisdiction.

* See 7A Wright & Miller, Federal Practice & Procedure, § 1917, p. 588, n.24 (1972 ed.):

"'Pendent' jurisdiction deals with the circumstances in which a single plaintiff, properly in court on a federal question, may assert a related claim arising under state law. [United Mine Workers of America v. Gibbs, 383 U.S. 715 (1966).] 'Ancillary' jurisdiction usually, though not invariably, speaks to the circumstances in which the court, while deciding a state-created claim in an action based on diversity of citizenship, can decide related claims for and against additional parties though there is no diversity as to those parties."

It may be that plaintiffs' reference to ancillary jurisdiction is no more than a prayer that plaintiff Kohnstamm should be allowed to intervene permissively on the theory that its claims are somehow ancillary to plaintiff Warner-Jenkinson's. If so, plaintiffs' reliance on the doctrine of ancillary jurisdiction should be rejected on the authorities already discussed earlier in this section. Apposite, also, is Note, Developments in the Law - Multiparty Litigation in the Federal Courts, 71 Harv.L.Rev. 874, 905-06 (1958):

"It is well established that if the original suit is properly brought in a federal court, based on either diversity-of-citizenship or federal-question jurisdiction, the intervention of right of a new party who does not meet diversity requirements will not destroy this jurisdiction, nor will a claim asserted by the intervenor have to stand on independent jurisdictional grounds....

"However, if the applicant seeks permissive intervention, independent jurisdictional grounds are required. There seems little reason to apply ancillary jurisdiction to permissive intervention because the original action can be disposed of completely without foreclosing any interest of the applicant by the process of the court; his legal rights will not be prejudiced by its outcome."
(footnotes omitted)

III. THERE EXISTS GOOD CAUSE WHY THIS
COURT SHOULD NOT AUTHORIZE PLAINTIFFS
TO DEPOSIT ROYALTIES IN ESCROW
DURING THE PENDENCY OF THIS ACTION

A. This Court Lacks Subject Matter
Jurisdiction To Order The Relief
Requested By Plaintiffs

Simultaneously with the filing of their complaint, plaintiffs applied to this Court for an order that (1) during the pendency of this action plaintiffs shall deposit in escrow the royalties payable to Allied Chemical under their license agreements, and (2) such escrow shall be in full performance of plaintiffs' royalty obligations under those license agreements.

Plaintiffs' application should be denied because, as detailed in section II, supra, this Court lacks jurisdiction over the subject matter of this action.

B. In Any Event, The Controlling
Authorities Do Not Compel
Deposit Of Royalties In Escrow
Under The Circumstances Of This Case

In substance, plaintiffs contend that Lear, Inc. v. Adkins, 395 U.S. 653 (1969), and its progeny, compels the escrow arrangement they seek. No such prejudicial and unfair result is compelled by the applicable authorities.

In Lear the Supreme Court held only that:

1) In an action by a licensor for royalties the licensee must be permitted to defend on the basis of the invalidity of the underlying patent; and

2) A licensee who is defending against an action brought by the licensor must be permitted to avoid the payment of royalties while challenging the validity of the licensed patent.

That this is what Lear stands for has been confirmed by the Supreme Court, and by the Courts of Appeals for this Circuit and elsewhere. Blonder-Tongue v. University Foundation, 402 U.S. 313 (1971); Painton & Company v. Bourns, Inc., 442 F.2d 216 (2 Cir. 1971); Troxel Manufacturing Co. v. Schwinn Bicycle Co., 465 F.2d 1253 (6 Cir. 1972) ("Troxel I"); Troxel Manufacturing Co. v. Schwinn Bicycle Co., 489 F.2d 968 (6 Cir. 1973) ("Troxel II").

For example, as stated in Blonder-Tongue (402 U.S. at 346):

"Lear permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties" (emphasis added).

And, as stated by Judge Friendly in Painton (442 F.2d at 226):

"What Lear precisely held was that the courts may not enforce a royalty agreement with respect to an invention embodied in an American patent while the licensee was contesting its validity and could recover only when, as and if validity was established" (emphasis added).

Neither Lear nor the decisions that followed Lear held that a licensee who stops paying royalties to the licensor can force the licensor to the cost of litigation and at the same time deprive the licensor of his statutory rights to an injunction and to adequate damages when the patent is held valid. Furthermore, neither Lear nor subsequent decisions have held that parties can ignore obligations incurred in settlement of litigation.

One of plaintiffs' claims is for restitution of royalties already paid to Allied Chemical. There is no authority which supports such a claim; an identical claim was rejected in Troxel I (465 F.2d at 1257), where the Court held that Lear did not alter the well-established rule against restitution of royalties. If plaintiffs are allowed to pay royalties into escrow, in breach of their obligation to pay those royalties to Allied Chemical and without facing the threat of an injunction or statutory damages should the patent be held valid, the potential result will be substantially the same as that which led the Court in Troxel I to deny restitution of royalties (465 F.2d at 1257):

"Rather than stimulating early litigation to test patent validity, such an interpretation of Lear would make it advantageous for a licensee to ... enjoy the fruits of his licensing agreement, and sue for repayment of royalties ... When ... the threat of injunction no longer exists, a licensee would have little to lose in

bringing an action to recover all the money he has paid in royalties on the ground of the invalidity of the patent. The licensee would have a chance to regain all the royalties paid while never having been subjected to the risk of an injunction. Such an interpretation of Lear would defeat one of the expressed purposes of the court in announcing that decision."

The escrow arrangement sought by plaintiffs will inevitably discourage the licensing of patents, for substantially the same reasons that led the Court in Troxel I to deny a claim for restitution of royalties (465 F.2d at 1257-58); it would create "a continuous cloud over any payment of royalties."

This Court expressly held in Bahamas Paper Co. Ltd. v. Imperial Packaging Corp., 58 F.R.D. 355 (S.D.N.Y. 1973), that it is necessary for a licensee to repudiate his agreement before attacking the validity of the licensed patent. In Bahamas the licensor had sued the licensee for royalties and for patent infringement. The Court stated (58 F.R.D. at 357):

"If plaintiffs establish that no such repudiation occurred in time to permit defendants to assert patent invalidity as a defense to the first cause of action, judgment for plaintiff will be entered thereon and the balance of the complaint will be dismissed."

As to the licensee's obligation to continue paying royalties, the Court concluded (Ibid.):

"It seems to me that the rule should be that the licensee is relieved of his obligation to pay royalties the moment he effectively repudiates the license agreement, thus forswearing its 'fruits' and exposing himself to the risks of injunction proceedings or other legal action by his licensor." (emphasis added)

To the same effect is Kraly v. National Distillers and Chemical Corporation, 502 F.2d 1366, 1372 (7 Cir. 1974):

"Anticipating the result reached by this court in Ransburg, the lower court presciently reasoned:

'We do not, however, believe that our present finding of invalidity relieves the defendant of its obligation to pay royalties for the period in which it was enjoying the benefit of its license and representing to the public that its product was licensed under the Kraly patent. So long as [the] defendant sought the protection of the patent, it is only equitable that it should discharge its royalty obligation under the license agreement. Once it ceased to represent that its product was licensed under the patent, it had repudiated the license agreement and assumed the risk of being found liable for infringement without receiving the concomitant commercial benefit of being a licensee.'

* * *

"The application of such equitable principles by the district court with respect to this issue was eminently correct."

See, also, Morton-Norwich Products, Inc. v. International Salt Co., 183 USPQ 748 (N.D.N.Y. 1974),* where the licensee suspended royalty payments and sued the licensor for a declaration that the licensed patent was invalid. The licensor counterclaimed, inter alia, for patent infringement on the theory that the licensee's suspension of royalties was a breach of the license agreement. In denying the licensee's motion to dismiss the infringement counterclaim, the Court stated (183 USPQ at 748-51):

"Morton (the licensee) contends that the infringement charge is insufficient as a matter of law because the withholding of royalties pending the outcome of validity litigation was judicially sanctioned in Lear v. Adkins, 395 U.S. 653, 162 USPQ 1 (1969), and hence, it is asserted, International cannot use the nonpayment to declare a breach.

* * *

"At the core of Lear is a balancing of the equities among licensor, licensee and the public interest. To permit a licensee, as in this case, to enter into a license agreement after presumably good faith bargaining and receive the benefits of the inventor's investment in money, time and talent, and on the next day institute an action seeking a judgment declaring the patent invalid while at all times during the litigation withholding from the licensor the agreed upon consideration certainly does not score high on the scales of equity. Nor would the payment of the first installment of royalties due before the institution of an action change the situation. The licensor,

* Not reported in F.Supp.

having granted the right to use his presumptively valid invention, should not be cut off from the reward he has bargained for absent the circumstances set forth in Lear.

* * *

"In summary, I have concluded that it would be inappropriate to extend the scope of Lear to such a point that the licensee would be in a 'heads I win--tails you lose' situation. The shield that licensees would enjoy were Lear so extended might encourage more validity litigation, but at too high a price. The licensor or patentee, in the bargaining process, would have to compensate for this loading of the scales against him. Since an invitation would be extended to the licensees to immediately, or very soon after the issuance of the license, withhold payment, he must bargain for higher royalties. It would also seem logical that he would issue licenses most sparingly since he is not likely to get any money until validity is declared. If his patent is declared invalid, issuing large numbers of licenses would do little or nothing to line his pocket in any event. If his patent is held to be valid, he can easily make up for the loss of income during the period of litigation by other royalties and damages for infringement. If he prices himself out of the market as a result of such demands, the federal policy of the wide dissemination of patented ideas is being frustrated. These considerations, coupled with the inherent inequity of such an extension of Lear, compel the result herein."
(footnotes omitted)

Significantly, none of the authorities cited by plaintiffs support their application for an order which provides that plaintiffs' withholding of royalty payments, whether by escrow or otherwise, nonetheless constitutes full performance by plaintiffs of the royalty obligations plaintiffs undertook in settlement of the earlier litigation.

Plaintiffs' reliance on American Sterilizer Co. v. Sybron Corp., 526 F.2d 542 (3 Cir. 1975), is misplaced. American Sterilizer dealt with the question of whether a newly devised process was within a pre-existing license, and did not raise any question as to the licensor's rights, in the absence of a license agreement of sufficient scope, to statutory damages and an injunction. Rather, the licensor sought only "a full accounting for all royalties due" from its licensee (526 F.2d at 544).

With respect to the question of paying royalties in escrow, the Court in American Sterilizer relied on Atlas Chemical Industries, Inc. v. Moraine Products, 509 F.2d 1 (6 Cir. 1974). Nowhere in Atlas is there a statement that the license agreement was not breached or repudiated by the licensee's resort to the escrow arrangement. As later elaborated by Chief Judge Phillips, who wrote the opinion in Atlas:

"In Atlas Chemical, the plaintiff-licensee brought suit to declare the patent invalid. The licensee placed the royalty payments in escrow during the period the action was pending. We held that since Lear allows a party freedom from royalty payments during a patent validity action, the fact that the payments were placed in escrow does not change the result. Escrow payments were held to be tantamount to nonpayment. We held the Atlas Chemical agreement voidable under Lear...." (emphasis added) PPG Industries, Inc. v. Westwood Chemical, Inc., 530 F.2d 700, 705 (6 Cir. 1976)

C. Deposit Of Royalties In Escrow
Would Be Prejudicial And
Fundamentally Unfair

1. The Escrow Would Prejudice Defendant's
Statutory Rights to an Injunction and
to Damages Adequate to Compensate for
Infringement, 35 U.S.C. §§ 283, 284

Plaintiffs contend that the escrow arrangement will "preserve the status quo and insure that the legal obligations of neither licensor nor licensees will be prejudiced or in any manner removed from the ultimate control of the Court" (Plaintiffs' Memorandum in Support of Their Proposed Order to Deposit Royalties in Escrow, p. 6). This ignores the fact that the escrow arrangement will give plaintiffs the fruits of the licenses, without making timely payment to Allied Chemical.* Furthermore, it ignores the fact that plaintiffs also apply for an Order that the withholding of royalties from Allied Chemical will not breach the license agreements entered into in settlement of the earlier litigation -- with the result that Allied Chemical will be forced to the cost of litigation and will be denied its statutory right (35 U.S.C. § 283) to enjoin plaintiffs from making, using or selling Red 40 if defendant prevails in this litigation.

* See the authorities discussed in the preceding section which reject such an unfair result.

The potential for abuse which would be created by plaintiffs' proposal is vividly portrayed in the following example posited in Arnold & Goldstein, Life Under Lear, 48 Tex.L.Rev. 1235, 1245 (1970):

"Client is in the process of building a 40,000,000-dollar plant, which when completed will infringe a newly-issued process patent. Notice of infringement and proffer of license is received from the patent owner. Lear teaches the infringer: Negotiate the license and simultaneously draft the complaint for declaratory judgment of invalidity and noninfringement. The parties meet and execute the license. As soon as the signatures are affixed to the license so that Client is insulated from fear of an injunction against use of its 40,000,000-dollar plant, pull from the pocket the complaint. Be courteous and always a gentleman of honor. When you serve the complaint upon the licensor whose signature is not yet dry and tell him that you are on the way to the courthouse (the jurisdiction of the state courthouse seems more likely) to file the complaint, tell him also that you will be happy to stipulate a thirty-day extension of time for him to answer, if he needs it. Can Lear's implied suggestion of this tactic really be the law?"

Plaintiffs' statement, as to the alleged lack of prejudice, also ignores the fact that the proposed escrow-without-breach arrangement will force Allied Chemical to the cost of litigation while denying Allied Chemical its statutory right (35 U.S.C. § 284) to:

"... damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the Court.

"... the Court may increase the damages up to three times the amount found or assessed."

Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Inc., 446 F.2d 295, 300 (2 Cir. 1971), cert. denied, 404 U.S. 870 (1971), is the landmark case in this Circuit as to the calculation of a "reasonable royalty." In Georgia-Pacific the patent owner was awarded a royalty of 22.4%. More recently, in Tektronix, Inc. v. United States, 188 USPQ 25, 31 (Ct.Cl. 1975), the Court followed the reasoning of Georgia-Pacific and held that a "reasonable royalty" was 27.5%. Allied Chemical should not be denied its right to demonstrate that a "reasonable" royalty for its valuable patent rights is greatly in excess of the 17-1/2% royalty arrived at in settlement of the earlier litigation.*

In summary, Warner-Jenkinson and Kohnstamm should not be permitted to contest the validity of Allied Chemical's patents assured that they can enjoy the benefits of the license during the litigation and never face an injunction or a realistic assessment of damages if they fail. Far from preserving the "status quo," such an inequitable result will give plaintiffs every advantage and will leave defendant with none. The parties will be in the position where defendant cannot win and plaintiffs cannot lose. As stated in 1971

* In addition, if plaintiffs breach their license agreements and force Allied Chemical to the cost of litigation, Allied Chemical should have the opportunity to prove that it is entitled to treble damages because of plaintiffs' willful and deliberate infringement.

by Judge Richard W. McLaren, of the Northern District of Illinois, while Director of the Justice Department's Anti-Trust Division (reported in BNA's Patent, Trademark & Copyright Journal, No. 31, June 10, 1971, page A-1):

"Unfairness to patentees could flow from the possible implication of Lear--with which we disagree as a matter of law--that a patent licensee may be able to continue to enjoy the benefits of a patent license while at the same time challenging the patent's validity.... The language proposed [a proposed bill to restate and reform the patent laws] would make clear that nothing inheres in the law of patent conveyancing which negates the usual state contract law dealing with such matters as repudiation, anticipatory breach, and failure of consideration."

2. The Escrow Would Be Fundamentally Unfair

The fundamental unfairness of the result sought by plaintiffs was most recently articulated in Aro Corp. v. Allied Witan Co., 531 F.2d 1368, 1370, 1372, 1374 (6 Cir. 1976), where the Court of Appeals affirmed a judgment ordering specific performance of a license agreement entered into in settlement of earlier litigation:

"In 1971 Aro instituted suit against Allied, alleging infringement of its U.S. Patent No. 2,950,775. Allied filed a counterclaim, seeking declaratory judgment of non-infringement of any valid claim and alleging unfair-competition and anti-trust violation. Pursuant to settlement, the complaint and counterclaim were dismissed without prejudice by Order dated March 25, 1974.

* * *

"Citing the interests of justice, the court granted Aro's motion for reinstatement of the case on the court's docket, enjoined Allied from not complying with the agreement, and again dismissed the complaint and counterclaim without prejudice.

* * *

"Agreements settling litigation are solemn undertakings, invoking a duty upon the involved lawyers, as officers of the court, to make every reasonable effort to see that the agreed terms are fully and timely carried out. Public policy strongly favors settlement of disputes without litigation. Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. Settlement agreements should therefore be upheld whenever equitable and policy considerations so permit. By such agreements are the burdens of trial spared to the parties, to other litigants waiting their turn before over-burdened courts, and to the citizens whose taxes support the latter.

* * *

"We find no reason in equity or in law why the settlement should not be enforced by an injunction against Allied's failure to comply with the license agreement herein. Accordingly, the order of the district court is affirmed. Costs of the appeal are assessed against the appellant. The motion for attorneys' fees and additional costs is denied."

Plaintiffs consented, in settlement of the earlier litigation, to the clauses in their license agreements that preclude them from terminating those agreements for two years. They should not be given immunity from the consequences that would routinely result from plaintiffs' breach

of those clauses. As the Court stated in Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc., 489 F.2d 974, 978 (7 Cir. 1973), when holding that a settlement agreement should be enforced:

"Although the federal patent policy prevails over 'the technical requirements of contract doctrine' (395 U.S. at 670, 89 S.Ct. at 1911), we believe that such policy must occupy a subsidiary position to the fundamental policy favoring the expedient and orderly settlement of disputes and the fostering of judicial economy. To allow a subversion of the deeply instilled policy of settlement of legitimate disputes by applying the federal patent policy as enunciated in Lear would effectively strip good faith settlements of any meaning. The vehicle of settlement would be a useless item if contracts, such as the one here, were subject to invalidation after they were consummated. We think the federal patent policy should not be carried so far...."


IV. CONCLUSION

Defendant's motion to dismiss the complaint should be granted on the ground that this Court lacks subject matter jurisdiction to entertain it. Plaintiffs' application for an order sanctioning the deposit of royalties in escrow, without breach of the agreements plaintiffs entered into in settlement of the earlier litigation, should be denied in all respects.

Respectfully submitted,

FISH & NEAVE

July 28, 1976.

By 
William J. Gilbreth
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

OF COUNSEL:

William K. Kerr
John E. Nathan
Hugh C. Barrett
Fish & Neave
277 Park Avenue
New York, New York 10017
Tel. 212-825-1050

Roy H. Massengill
Jay P. Friedenson
Allied Chemical Corporation
P. O. Box 1057R
Morristown, New Jersey 07960
Tel. 201-455-5127

A-169

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



-----X
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

Civil Action No.

ALLIED CHEMICAL CORPORATION, :

76 Civ. 2744 (MEF)

Defendant. :
-----X
-----X

**PLAINTIFFS' REPLY MEMORANDUM
IN SUPPORT OF ESCROW MOTION**

H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :
-----X

**PLAINTIFFS' REPLY MEMORANDUM IN SUPPORT OF
THEIR PROPOSED ORDER TO DEPOSIT ROYALTIES
IN ESCROW PENDENTE LITE**

KENYON & KENYON REILLY CARR & CHAPIN
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs,
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

Dated: August 6, 1976
At: New York, New York

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Schnitzer, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-1100
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

KENYON & KENYON REILLY CARR & CHAPIN

59 MAIDEN LANE

NEW YORK, NEW YORK 10038

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UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

WARNER-JENKINSON COMPANY, :
Plaintiff, :
v. : Civil Action No.
ALLIED CHEMICAL CORPORATION, : 76 Civ. 2744 (MEF)
Defendant, :

-and-

H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, Intervenor: :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :

PLAINTIFFS' REPLY MEMORANDUM
IN SUPPORT OF THEIR PROPOSED ORDER TO
DEPOSIT ROYALTIES IN ESCROW PENDENTE LITE

Allied's Opposition Memorandum to the application for escrow relief sought by Warner-Jenkinson and Kohnstamm argues (a) that this Court lacks subject matter jurisdiction; (b) that the authorities do not compel the escrow deposit sought; and (c) that escrow would be prejudicial and unfair.

The jurisdictional issues are responded to in Plaintiffs' Memorandum In Opposition To Defendant's Motion Under Rule 12(b)(1) F.R.C.P., to be served on August 9, 1976.

The royalty escrow which plaintiffs seek is a fair and "commendable" procedure. Escrow preserves the status quo during the litigation: if the patent is held invalid, an undeserving patentee will not be unjustly enriched; if the patent is held valid, then the patentee recovers. In either event, escrow permits the licensee to exercise his federal right to challenge the patent while maintaining the license.

The escrow sought herein is the only practical way to advance the public interest in having a prompt adjudication and prevent dilatory tactics which the Supreme Court in Lear, Inc. v. Atkins, 395 U.S. 653 (1969) warned against some seven years ago. In the light of this, Allied's lengthy opposition merely reargues points which were overruled by Lear.

Further, none of the authorities cited by Allied precludes the relief sought. Under the peculiar circumstances of this case, escrow will promote a speedy determination of patent validity and remove an unjustified burden on the public.

A. Allied's Opposition Misrepresents the Policy and Practical Application of Lear

1. Plaintiffs Need Not Repudiate Their Licenses

Seven years ago Lear "unmuzzled" licensees to

encourage their attack upon invalid patents. At issue before this Court now is not the reargument of Lear, but rather the propriety of establishing a royalty escrow, a procedure which has been commended by the Court of Appeals for the Sixth Circuit in Atlas Chemical Industries, Inc. v. Moraine Products, 509 F.2d 1,7 (6th Cir. 1974).

Contrary to Allied's suggestion on page 37 of its Memorandum, Lear's "unmuzzling" is not limited to licensees who must defend against licensor-plaintiffs. Lear encourages suits by licensee-plaintiffs against patentees to contest the validity of licensed patents without termination of the license: Lear, Inc. v. Atkins, supra; Atlas Chemical Industries, Inc. v. Moraine Products, supra; Medtronic, Inc. v. American Optical Corp., 327 F.Supp. 1327 (D.Minn. 1971).

American Sterilizer Co. v. Sybron Corp., 526 F.2d 542 (3rd Cir. 1975) at 543 decided the question:

May a [plaintiff] patent licensee challenge the scope and validity of the underlying patent without first terminating its license agreement? The district court answered this question in the negative... We reverse, holding Lear, Inc. v. Atkins, 395 U.S. 653, 89 S. Ct. 1902, 23 L.Ed.2d 610 (1969) controls.

No case cited by Allied restricts the application of Lear to a defense by a licensee in a royalty suit brought by the licensor. As Allied itself recognizes by its quote from Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971), Lear encourages licensee suits by holding that royalty

agreements may not be enforced while a licensee contests the validity of the licensed patent.

See also: PPG Industries, Inc. v. Westwood Chemical, Inc., 530 F.2d 700 (6th Cir. 1976) at 707:

We are not persuaded that it is necessary for the licensee to repudiate the agreement in order to encourage an adjudication of invalidity... the Supreme Court's reference to 'unmuzzling' in Lear does not depend upon the presence or absence of a termination clause.

In the instant action, plaintiffs desire to preserve their licenses if, contrary to their urging, the patents are held valid; however, under Lear and following cases, while this contest goes on, royalties are not properly payable to Allied until validity is established.

2. The Licensors/Licensee Equities Have Been Settled by the Supreme Court

As to equities between patentee/licensor and licensee, Lear held at 395 U.S. 673:

The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.

It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to postpone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from

attempting to prove patent invalidity in the courts.
[Emphasis added].

And as between the patentee/licensor and the public interest in the free use of ideas in the public domain, the licensee in this instance, represents the public in challenging invalid patents. Lear held at 395 U.S. 670:

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery.

In this action, the licensees' motivation has been precipitated by changed economic circumstances, as are more fully detailed below, in which governmental regulations now effectively prevent the plaintiffs' use of any product other than F.D. & C. Red No. 40. Thus, not only is a patent monopoly involved here, but uniquely, regulations of another Federal agency have created an economic monopoly in the patents in suit.

3. Escrow Promotes the Lear Enunciated Public Policy of a Prompt Adjudication of Patent Validity

Atlas Chemical, supra, regarded the royalty escrow here sought as "commendable". Subsequently, Judge Phillips in PPG Industries, Inc. v. Westwood Chemical, Inc., supra, again considered the salutary effect and equitable nature of a royalty escrow, "in '...the type of suit authorized' by Lear..." He noted that "...the factual situation in Atlas Chemical [where royalties were escrowed] encouraged an early adjudication of invalidity". [Emphasis added]. 530 F.2d at 705.

Just as relief from royalty payments to the patentee will discourage the patentee's (Allied's) dilatory tactics, so too will the escrow discourage any dilatory tactics by plaintiff-licensees. If plaintiffs were not to deposit royalties in escrow, but were free to use the monies, they, like the licensor receiving royalties, would have motivation to protract and delay this case to final reckoning. With the escrow, plaintiff-licensees and defendant-licensor have every motivation to expedite this action to obtain an early determination of patent validity and with it the right to the escrow fund.

Allied's view ignores the public interest in expeditious determination of the validity of the patents in suit. (See, Lear). The issue framed on page 38 of Allied's Memorandum does not consider the public policy as defined in Lear; the question is not whether escrow is mandatory, but rather whether escrow will further the federal policy of speedy determination of patent validity. Allied's other point pits conventional contract law against federal patent law; it is beyond question that federal patent law is paramount. Lear, Inc. v. Atkins, supra; American Sterilizer Co. v. Sybron Corp., supra.

Also, the public interest in preserving obligations under valid patents is served by an escrow. If funds are regularly deposited in escrow, and if a patentee prevails, then he is assured of the funds which he would have had. If licensees refused to deposit royalty payments into escrow and

continued operations, protracted litigation would be encouraged and the ultimate exposure for royalties could be so great that recovery might not be collectible. Hence, if Allied's complaint is that Lear is unfair, the proposed escrow redresses that alleged inequity and serves the public interest announced in Lear.

4. Payment of Royalties to Allied Would Be "Unjustified"

Allied's complaint on page 44 of its Memorandum that it will be unfairly subjected to the cost of litigation ignores that plaintiffs also are bearing litigation costs. Lear has also decided this issue at 395 U.S. 670:

A patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office. Moreover, the legal conclusion is predicated on factors as to which reasonable men can differ widely. Yet the Patent Office is often obliged to reach its decision in an ex parte proceeding, without the aid of the arguments which could be advanced by parties interested in proving patent invalidity. Consequently, it does not seem to us to be unfair to require a patentee to defend the Patent Office's judgment when his licensee places the question in issue, especially since the licensor's case is buttressed by the presumption of validity which attaches to his patent. [Emphasis added].

Indeed, for a licensee to pay royalties to a patentee during litigation for a patent ultimately held to be invalid would be a double tax on the licensee, both by unjustified royalty payments and legal fees. This "double tax" coupled with the presumption of patent validity, would favor

patentees so heavily as a class in litigation that Lear's shouted encouragement to licensees to challenge validity would be reduced to a mere whisper.

Further, if royalties were paid during litigation, upon a determination of invalidity licensees would be required to initiate a second suit for recovery of royalties paid, again doubly taxing the parties and the courts. Thus, the escrow sought promotes a prompt determination, the avoidance of additional litigation and settles all matters between the parties in one suit.

The obverse of Allied's claim that "the escrow arrangement will give plaintiffs the fruits of the licenses" is that payment to Allied will give Allied unjustified royalties for an invalid patent and require a second suit by plaintiffs for their recovery.

In this regard, the Supreme Court in Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) quoted the Court of Appeals for the Second Circuit in Painton & Co., Ltd. v. Bourns, Inc., 442 F.2d 216, (2nd Cir. 1971), to point out the inequity inherent in the continuation of royalty payments pendente lite:

[A patent] may well be invalid, yet many will prefer to pay a modest royalty than to contest it, even though Lear allows them to accept a license and pursue the contest without paying royalties while the fight goes on. The result in such a case would be unjustified royalty payments... [Emphasis added]. 416 U.S. at 488.

B. The Unique Circumstance of Allied's Dual Monopoly Under the Federal Food, Drug, and Cosmetic Act, Enforced by its Improperly Obtained Patents, More Strongly Turns the Equities In Favor of Plaintiffs

1. The Recent Significance of F.D. & C. Red No. 40

Notwithstanding the Supreme Court's general conclusions in Lear regarding the relationship between licensee and licensor, this case involves a unique factual situation in which Allied's patent monopoly on the color additive F.D. & C. Red No. 40 is reinforced by governmental regulation under the Federal Food, Drug, and Cosmetic Act (21 U.S.C. §301 et seq.). The regulations prevent the practical use of any red color additive other than F.D. & C. Red No. 40 in food, drug or cosmetic applications. Thus, as pleaded, F.D. & C. Red No. 40, claimed by Allied's patents, is by force of law the only red color additive suitable for general use for which no reasonable substitutes are available. It is used not only by itself but in blends with many other additives sold by plaintiffs.

The significance of F.D. & C. Red No. 40 was created by the Food and Drug Administration's recent delisting of F.D. & C. Red No. 2, at the time the most widely used red food color. Hence, F.D. & C. Red No. 40, a specialty color of limited application when the licenses to plaintiffs were issued, has now become one of the most widely sold commercial colors in the industry. Indeed, as to the businesses

of plaintiffs, the "modest royalty which they preferred to pay" in settlement of litigation for a limited, specialty use color when the licenses were entered into, was truly modest and insignificant to their businesses when sales of the color were nominal. However, due to governmental regulation, for reasons wholly beyond plaintiffs' control, the royalty has now become an oppressive tax upon plaintiffs' businesses. Hence, as royalties have now become substantial and there is no alternative, there now exists every economic incentive on the part of plaintiffs to challenge the validity of Allied's patents and this Court should have no hesitation in requiring Allied to defend the validity of its patents.

2. Allied's Acquisition of its Patents

While the significance of F.D. & C. Red No. 40 resulted from governmental regulation, Allied's acquisition of the patents for F.D. & C. Red No. 40 resulted from its own deliberate and inequitable acts before the Patent Office:*

(a) Allied failed to cite to the Patent Office German Patent 12,451 which Allied knew was the "most pertinent" prior art reference to F.D. & C. Red No. 40, and which in fact describes the chemical formula of the dye.

(b) Allied presented to the Patent Office a misleading comparison of solubility characteristics of

* Based on information of record in 72 Civ 301 (WCC) (Consolidated).

F.D. & C. Red No. 40 with other colors, as a predicate of patentability for Red F.D. & C. No. 40, when Allied knew this comparison was improper.

Hence, on this basis alone, the patents are invalid and unjustifiably restrict free competition in the use of ideas which are in reality a part of the public domain.

Lear, Inc. v. Atkins, supra; SCM Corp. v. Radio Corp. of America, 318 F.Supp. 433 (S.D.N.Y. 1970); Monsanto Co. v. Rohm & Haas Co., 456 F.2d 592 (3rd Cir. 1972); Beckman Instruments, Inc. v. Chemtronics, Inc., 439 F.2d 1369 (5th Cir. 1970).

C. Courts Have Frequently Granted Protective Relief Against Termination of a Contract To Preserve the Status Quo

The purpose of the Declaratory Judgments Act has been aptly stated in Medtronic, Inc. v. American Optical Corp., supra, at 1332:

One purpose of this Act is to permit a potential defendant to obtain an adjudication of his rights and obligations under a contract without first breaching that contract and incurring damages which may imperil its very existence. Actual controversies can thus be settled before they result in the accrual of damages or termination of the contract.

See also, Atlas Chemical Industries, Inc. v. Moraine Products, supra; PPG Industries, Inc. v. Westwood Chemical, Inc., supra.

Thus, the preservation of the status quo by means

such as the escrow relief sought here has frequently been lauded by courts. Thus, Atlas Chemical considered an escrow of royalties "commendable". In the landlord-tenant context, escrow of rents was regarded as an "excellent protective procedure" by the Court of Appeals for the District of Columbia pending resolution of disputed rights. Javins v. First National Realty Corp., 428 F.2d 1071 (D.C. Cir. 1970) at 1083 fn. 67. Thus, the benefits of escrow and its fairness, consonant with the requirement that a patentee defend validity in the courts before he is entitled to royalties, demonstrates that the escrow relief sought by plaintiffs fulfills the true purposes and intent of the remedy sought by the declaratory judgment and the relief authorized by Lear without breaching that contract or incurring damages before the parties' rights are declared.

D. Allied's Remaining Authorities
Are Distinguishable

Kraly v. National Distillers and Chemical Corp., 502 F.2d 1366 (7th Cir. 1974) is not directed to the issue of whether an escrow is proper. At the present juncture, plaintiffs are actively contesting validity while preserving the status quo. Repudiation of the license is not a step plaintiffs are at present prepared to take if the contemplated escrow is permitted.

In Morton-Norwich Products, Inc. v. International

Salt Co., 183 U.S.P.Q. 748 (N.D.N.Y. 1974), plaintiff-licensee merely suspended payments and never proffered any royalties into an escrow fund. There the Court stated that the status quo was upset by allowing the licensee to compete royalty-free. The relief sought by plaintiffs compels the deposit of its funds into escrow if plaintiffs seek to preclude the possibility of injunctive relief. Further, the decision in Morton-Norwich was arrived at without the benefit of a citation to Painton and also preceded the Supreme Court's statement in Kewanee that "Lear allows [licensees] to accept a license and pursue the contest without paying royalties while the fight goes on".

With deference to the Court's opinion in Bahamas Paper Co. Ltd. v. Imperial Packaging Corp., 58 F.R.D. 355 (S.D.N.Y. 1973), plaintiffs submit that the case should be restricted to the facts relating to the Rule 42(b) motion before Judge Knapp, and that licenses need not be repudiated prior to challenging validity; this has clearly been established by Lear, Kewanee, Painton, Atlas Chemical, American Sterilizer and Medtronic. Indeed, PPG Industries, Inc. v. Westwood Chemical, Inc., supra, mischaracterized by Allied on page 43 of its Memorandum to the effect that escrowing constitutes a breach because it amounts to non-payment of royalties, instead is directly addressed to the issue of when a licensee's obligation to pay royalties ceases

without breach of the license agreement. The Court explicitly stated that:

...Lear allows a party freedom from royalty payments during a patent validity action, the fact that the payments were placed in escrow does not change the result. Escrow payments were held to be tantamount to nonpayment. 350 F.2d at 705.

The Court defined the purpose of the nonpayment as a right under Lear which licensee's have to be free from the obligation to pay royalties but such non-payment does not constitute a breach of contract. Thus, in PPG Industries the Court held that to the extent royalties were escrowed pending litigation, and the patent held invalid, the patentee would not be entitled to any recovery of royalties, and the licensee would be entitled to the escrow fund just as if no royalties had been paid.

Allied's reliance upon Aro Corp. v. Allied Witan Co., 531 F.2d 1368 (6th Cir. 1976), is misplaced in the context of the present case. In Aro, an insubstantial amount of royalties was in issue. De minimis non curat lex. Unlike the case at bar where the term of the patents has just begun and where no viable patented or unpatented alternative to F.D. & C. Red No. 40 is available to plaintiffs or the public, in Aro the patents were "soon-to-expire" (at 1374), "there [was] no evidence that the public [had] no alternative unpatented product available." (at 1373). In the present

case, there exists every motivation to contest validity which was recognized in Aro:

Where it can be shown that a patent does in fact have the effect of a "tax on the public," is in fact a cause of increased pricing, is in fact serving to limit competition in its product line or does in fact exert substantial effect upon the public and where it can be shown that the proffered challenge is the only one likely to be made, it may be that judicial policy should place determination of the possibility that such patent may be invalid ahead of holding litigants to their settlement agreements. 531 F.2d at 1374.

E. Conclusion

Allied's claim of "abuse" is specious for if Allied's patents are valid, royalties will be available from the escrow fund. If plaintiffs were to continue to pay royalties to Allied, Allied would have every advantage: delay, presumption of validity, and substantial royalties in pocket; and if plaintiffs prevail on invalidity, a second suit for recovery of royalties paid pending litigation would almost certainly follow.

It is respectfully submitted that, on reason and authority, plaintiffs' application for an order to deposit

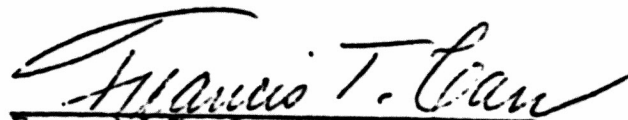
royalties in escrow pendente lite should be granted.

Respectfully submitted,

KENYON & KENYON REILLY CARR & CHAPIN

Dated: August 6, 1976
At: New York, New York

By



Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK



WARNER-JENKINSON COMPANY,
Plaintiff,

v.

ALLIED CHEMICAL CORPORATION,
Defendant.

Civil Action No.
76 Civ. 2744 (MEF)

-and-

H. KOHNSTAMM & COMPANY, INC.,

Plaintiff, Intervenor

v.

ALLIED CHEMICAL CORPORATION,
Defendant.

PLAINTIFFS' MEMORANDUM IN
OPPOSITION TO MOTION TO
DISMISS

PLAINTIFFS' MEMORANDUM IN OPPOSITION TO
DEFENDANT'S MOTION TO DISMISS UNDER
RULE 12(b)(1) F.R.C.P.

Dated: August 9, 1976
At: New York, New York

KENYON & KENYON REILLY CARR & CHAPIN
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm &
Company, Inc.

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UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

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WARNER-JENKINSON COMPANY,	:	
Plaintiff,	:	
v.	:	Civil Action No.
ALLIED CHEMICAL CORPORATION,	:	<u>76 Civ. 2744 (MEF)</u>
Defendant,	:	
<hr/>		x

-and-

<hr/>		x
H. KOHNSTAMM & COMPANY, INC.,	:	
Plaintiff, Intervenor,	:	
v.	:	
ALLIED CHEMICAL CORPORATION,	:	
Defendant.	:	
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PLAINTIFFS' MEMORANDUM IN OPPOSITION TO
DEFENDANT'S MOTION TO DISMISS UNDER
RULE 12(b)(1) F.R.C.P.

I. INTRODUCTION

This Memorandum is presented in opposition to
defendant's motion to dismiss under Rule 12(b)(1) F.R.C.P.

A. This Action

On June 22, 1976 plaintiffs, Warner-Jenkinson Company ("Warner-Jenkinson") and E. Kohnstamm & Company, Inc. ("Kohnstamm") brought an action against defendant, Allied Chemical Corporation ("Allied") seeking a judgment that:

- (a) Allied's Patent Nos. 3,519,617 (the "'617 patent") and 3,640,733 (the "'733 patent") are invalid, unenforceable and not infringed by plaintiffs.
- (b) The invalidity of the patents renders license agreements between Warner-Jenkinson and Allied, and Kohnstamm and Allied void and unenforceable.

Plaintiffs claim damages, restitution and injunctive relief, including that:

- (c) Restitution be made of all royalties.
- (d) Allied is not entitled to recover royalties paid in escrow during the pendency of this action.
- (e) Allied be enjoined from instituting any action against Warner-Jenkinson or Kohnstamm or their customers for royalties or infringement.
- (f) Their damages be paid.

(g) Their costs and attorneys' fees be paid.

(h) Other relief be awarded as the Court deems just.

This Court has ordered Allied to show cause why plaintiff's proposed order: approving escrow agreements; authorizing deposit of royalties in escrow; and approving such deposits pendente lite as satisfying payment obligations under the license agreements, should not be entered.

Plaintiffs brought this action under the Patent Laws and have invoked 28 U.S.C. §§1331, 1332, 1338 as the jurisdictional basis for the action; they also invoke U.S.C. §§2201 and 2202 (Paragraph 5). Kohnstamm alternatively moved in the Complaint to intervene as a plaintiff in the action Warner-Jenkinson Company v. Allied Chemical Corporation (Paragraph 6).

B. Background of the Parties' Relationship

The controversy between plaintiffs and Allied arose in 1971 when Allied refused to grant licenses to plaintiffs under the patents now in suit to permit manufacture of F.D. & C. Red No. 40. Allied also refused to sell F.D. & C. Red No. 40 to plaintiffs. In 1971 F.D. & C. Red No. 2, the mainstay of the F.D. & C. color industry, was being considered for imminent delisting by the Food and Drug Administration. The

delisting of F.D. & C. Red No. 2 would have left plaintiffs without any F.D. & C. approved red color suitable for wide range application to supply to their customers. Thus, plaintiffs required F.D. & C. Red No. 40, which was the only substitute for F.D. & C. Red No. 2, in order to continue in their businesses.

Allied's is refusal to sell or to license placed plaintiffs in an untenable position; after unsuccessful negotiations, plaintiffs' instituted declaratory judgment actions in early 1972 seeking a declaration of invalidity, non-infringement and unenforceability of Allied's patents. In the meantime, the F.D.A. did not take any decisive action regarding the delisting of F.D. & C. Red No. 2.

After three years of pre-trial activity, trial was commenced in early 1975. At the Court's instance a settlement was reached and plaintiffs were issued licenses. The case was dismissed without prejudice as to the patent issues.

During the following year, plaintiffs paid insignificant royalties, reflecting the limited, specialty use of F.D. & C. Red No. 40. However, in early 1976, the F.D.A. delisted F.D. & C. Red No. 2, leaving F.D. & C. Red No. 40 as the only practicable red food color for general use on F.D.A.'s approved list. As a consequence, the royalty obligations mushroomed out of proportion in relation to the

commercial worth of F.D. & C. Red No. 40. The modest royalty plaintiffs were once willing to pay to end litigation, because of drastically changed circumstances now poses the threat of economic strangulation to the plaintiffs' businesses.

Attempts to renegotiate the high royalty rates ended in failure. Allied expressed its own dissatisfaction with the license agreements since they permitted Allied's competitors to manufacture F.D. & C. Red No. 40 rather than requiring them to purchase the color from Allied. Accordingly, business realities were such that only one practicably usable red food color was available and Allied was desirous of being the sole manufacturer thereof. Plaintiffs feared:

- (a) If they continued to pay high royalties, they would lose their competitive position.
- (b) If they stopped paying royalties, Allied would sue them and/or their customers for infringement and seek an injunction which would put them out of business.

Neither alternative offered any comfort to plaintiffs. Their only choice was to bring an action to invalidate the Allied patents and prevent their enforcement once and for all. Because there is no other practicable substi-

tute for F.D. & C. Red No. 40, plaintiffs could not risk the loss of their license rights. Consistent with the Supreme Court's holding in Lear, they seek to invalidate Allied's patents without termination of the license agreements.

Contrary to Allied's assertion on page 7 of its Memorandum, the license agreements do not prevent this litigation; they merely speak of non-termination of the agreements for two years.

Allied by its Rule 12(b)(1) Motion now seeks to have this action dismissed. On the authorities set forth below, Allied's Motion should be denied and this case be allowed to proceed.

II. ALLIED'S MOTION SHOULD BE DENIED

Allied challenges the subject matter jurisdiction of the Court under the Declaratory Judgments Act (28 U.S.C. §§2201, 2202), the Court's "arising under" jurisdiction under 28 U.S.C. §§1331 and 1338, and diversity jurisdiction under 28 U.S.C. §1332.

As set forth below, Warner-Jenkinson and Kohnstamm first establish that this controversy is appropriate for declaratory judgment and then set forth the independent grounds of "arising under" and diversity jurisdiction which sustain this action.

A. A Justiciable Controversy Exists Within the Meaning of 28 U.S.C. §2201 Giving Rise to Subject Matter Jurisdiction

Notwithstanding that an adequate jurisdictional basis for this action is established by the plaintiffs' case against Allied for affirmative relief [See: Sections B and C, infra], basis also exists for this Court to treat the instant action as a declaratory judgment and decide the controversy.

The Declaratory Judgments Act is procedural in its operation. It did not create a new cause of action, it merely created a new remedy. Under the Act, an actual controversy establishes the right of the court to provide the relief requested. Once subject matter jurisdiction has been established, the Court may proceed to determine the controversy on its merits. Aetna Life Insurance Co. v. Haworth, 300 U.S. 227 (1937); Skelly Oil Co. v. Phillips Petroleum Co., 339 U.S. 667 (1950).

The justicable controversy issue is decided on the basis of the Complaint, and the allegations therein are liberally construed and taken as admitted for purposes of the motion. Scheuer v. Rhodes, 416 U.S. 232 (1974); Jenkins v. McKeithen, 395 U.S. 411 (1969).

1. Allied's Position

Allied maintains that the Complaint fails to allege

that it made a charge of infringement against Warner-Jenkinson or Kohnstamm (Allied's Memorandum, pp. 13-14) and relies upon Thiokol Chemical Corp. v. Burlington Industries, Inc., 313 F.Supp. 253 (D.Del. 1970), ("Thiokol I"), for the proposition that a declaratory judgment action by a licensee against the patentee-licensor for a declaration of invalidity and non-infringement cannot state a justiciable controversy under 35 U.S.C. §2201 because a licensor cannot charge the licensee with infringement. At pages 16-17 of its Memorandum, Allied argues that Warner-Jenkinson and Kohnstamm are asking the Court for an advisory opinion because Allied has not charged infringement.

2. "Business Realities" Create
A Justiciable Controversy

Whether an actual controversy exists which is sufficient to confer jurisdiction on a court is a question which must be decided upon the specific facts of each case. However, the Supreme Court has set out standards to be applied in deciding the existence of a "case of actual controversy". In Aetna Life Insurance Co. v. Haworth, 300 U.S. 227 (1937) the Court stated at 300 U.S. 240, 241:

A "controversy" in [the constitutional] sense must be one that is appropriate for judicial determination.... A justiciable controversy is thus distinguished from a difference or dispute of a hypothetical or abstract character; from one that is

academic or moot.... The controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests.... It must be a real and substantial controversy admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.... (citations omitted).

See also, Maryland Casualty Co. v. Pacific Coal & Oil Co., 312 U.S. 270, (1941).

The "touchstone" of a justiciable controversy in patent cases is "reasonable apprehension" on the part of a declaratory judgment claimant that the patentee will sue him. "Reasonable apprehension" is to be taken in light of the realities of business life. Wallace & Tiernan, Inc. v General Electric Co., 291 F. Supp. 217 (S.D.N.Y. 1968); Components, Inc. v. Western Electric Co., 318 F.Supp. 959 (D.Me. 1970).

In Japan Gas Lighter Assoc. v. Ronson Corp., 257 F.Supp. 219, 237 (D.N.J. 1966) a justiciable controversy arose from a:

...well grounded fear that should he [the plaintiff] continue or commence the activity in question, he faces an infringement suit or the damaging threat of one to himself and his customers. The touchstone is a reasonable apprehension. (emphasis by the Court).

The declaratory judgment issue is therefore whether plaintiffs have pleaded facts which if proven would show that

they were in reasonable apprehension that they faced patent litigation by Allied. The Complaint clearly shows such facts.

In this Circuit, the Court of Appeals has liberally construed the "actual controversy" requirement and made the "realities of business" the standard which courts should use in determining whether or not an actual controversy exists. In Muller v. Olin Mathieson Chemical Corp., 404 F.2d 501 at 504, 505 (2nd Cir. 1968), the Court reaffirmed the prevailing view:

"Professor Moore states that the requirement that there has been a "charge of infringement" has been given a very liberal interpretation. 6A Moore's Federal Practice ¶57.20 at 3113 (2d ed. 1966).

* * *

"No doubt the years of strife² between the parties has impeded plaintiffs' success in marketing their product in this country and elsewhere. Unlike the facts in Wembley, Inc. v. Superba Cravats, Inc., supra, the plaintiffs are ready, able and anxious to enter the United States market in quantity. But defendant has put plaintiffs in a position where they must either abandon use of their patent or, if they exploit the patent, must run the risk of being liable to defendant for potential damages whenever defendant should see fit to sue for infringement. See Dewey & Almy Chemical Co. v. American Anode, Inc., supra, 137 F.2d at 71. To deny that a 'case or controversy' exists in this situation is to 'ignore the realities of business life.'" 6A Moore's Federal Practice ¶57.20, at 3121 (2d ed. 1966) (footnote omitted).

See also, Wallace & Tiernan, Inc. v. General Electric Co., supra; and Blessing Corp. v. Altman, 373 F.Supp. 802 (S.D.N.Y. 1974) at 805 where Judge Bauman interpreted this Court's opinion in Wallace & Tiernan as suggesting the same broad reading of "charge of infringement" as subsequently stated in Muller.

3. Allied Authorities Are Distinguishable

Allied has tried to anticipate Warner-Jenkinson's and Kohnstamm's position by attempting to distinguish the instant case from Lear, Inc. v. Atkins, 395 U.S. 653 (1969); Medtronic Inc. v. American Optical Corp., 327 F.Supp. 1327 (D.Minn. 1971); and American Sterilizer Co. v. Sybron Corp., 526 F.2d 542 (3rd Cir. 1975).

Plaintiffs also rely on Atlas Chemical Industries, Inc. v. Moraine Products, 509 F.2d 1 (6 Cir. 1974); Hanes Corp. v. Millard, 531 F. 2d 585 (D.C. Cir. 1976); and Dahlgren Mfg. Co. v. Harris Corp., 399 F.Supp. 1253 (N.D.Tex. 1975).

Below, the plaintiffs will discuss the foregoing cases and demonstrate that no barrier to the existence of a justiciable controversy exists in the present action.

(a) Lear, Inc. v. Atkins

Lear, supra at 668 confirmed that:

...federal law requires that all ideas

in general circulation be dedicated to the common good unless they are protected by a valid patent. Sears, Roebuck v. Stiffel Co., [376 U.S. 225 (1964)]; Compco Corp. v. Day-Brite Lighting, Inc., [376 U.S. 324 (1964)].

In furtherance of this federal law the Court in Lear buried the doctrine of licensee estoppel and sought, as a matter of public policy, to encourage those with the strongest economic incentive to challenge the validity of patents:

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued. (at 670-671)

In the seven years since Lear, courts have interpreted its strong policy to permit licensees to bring actions in the federal courts under the Patent Laws to establish invalidity of licensed patents, their non-infringement and unenforceability without termination of the license agreement. The federal courts have held that a justiciable controversy is stated by licensees attacking the validity of the licensed

patents; this is precisely what Warner-Jenkinson and Kohnstamm have done by filing the instant Complaint against Allied.

(b) Medtronic Inc. v. American Optical Corp.

The jurisdictional basis for the present action is dealt with in Medtronic Inc. v. American Optical Corp., 327 F. Supp 1327 (D. Minn. 1971) where the Court had before it a factual situation virtually identical with that presented here. Plaintiff therein sought a declaratory judgment under 28 U.S.C. §§2201 and 2202 that defendant's licensed patent ("the 990 patent") was invalid and not infringed. Furthermore, plaintiff sought a temporary decree authorizing it to pay royalties to an escrow agent during the pendency of the litigation.* Plaintiff alleged jurisdiction as arising under the Patent Laws of the United States, 28 U.S.C. §1338 (327 F. Supp. at 1330).

Defendant moved to dismiss the Complaint under Rule 12(b)(6) F.R.C.P. on the ground that there was no jurisdiction over the subject matter by asserting that there was no assertion of the existence of an actual controversy between the parties (327 F. Supp. at 1329).

Beginning at 327 F. Supp. 1330 the Court set out its reasoning for denying the motion under the heading "PATENT

* The Court reserved decision on the escrow question pending determination of the jurisdictional question.

LAW JURISDICTION: THE 990 PATENT" and concluded as follows:

Today this Court holds that an action for a [declaration of invalidity or non-infringement] of a licensed patent is also a suit under the patent laws. Accordingly, this Court finds it has patent law jurisdiction over the controversy surrounding the '990 patent. (Id. at 1332-1333)

In doing so the Court rejected defendant's argument (and Allied's in the instant case) that:

...because there is a license, there can be no charge; because there is no charge, there can be no controversy; because there is no controversy, this court lacks jurisdiction. (Id. at 1331)

The Court found authority for its holding that the mere existence of a license agreement does not prevent the creation of a justiciable controversy between licensee and licensor in Lear, Inc. v. Atkins, supra, and in Beckman Instruments, Inc. v. Technical Dev. Corp., 433 F.2d 55 (7th Cir. 1970), holding:

In Lear the Supreme Court abolished the doctrine of licensee estoppel and enunciated the strong public policy that patent validity should be open to challenge by licensees. In Beckman a sub-licensee brought a declaratory judgment action challenging the validity of the patent while the license agreement was in effect, and also alleging the illegality of that agreement. The Seventh Circuit reversed the district court's summary judgment for defendant on the authority of Lear

* * * * *

Two points are noteworthy about the Seventh Circuit's ruling; it did not require Beckman to terminate the license before bringing its action and it interpreted Lear as enunciating a policy of removing legal and economic barriers to patent challenges by licensees. This Court accepts the Seventh Circuit's interpretation of Lear in toto. (Id. at 1331)

In this connection, the Court distinguished and declined to follow the "more restrictive reading of Lear" in Thiokol I, supra. As a matter of policy dictated by Lear, the Court refused to force licensees to take the "drastic" steps required by the Thiokol cases when a licensee seeks judicial relief under the Declaratory Judgments Act:

One purpose of this Act is to permit a potential defendant to obtain an adjudication of his rights and obligations under a contract without first breaching that contract and incurring damages which may imperil its very existence. Actual controversies can thus be settled before they result in the accrual of damages or termination of the contract.

The present action is typical of the cases that Congress intended to be settled by a declaratory judgment suit. The plaintiff prays for a declaration that patent '990 is invalid and non-infringed. It requests a temporary decree authorizing it to pay royalties allegedly due under the License Agreement to an escrow agent. Since the Agreement requires royalties on products "covered by a valid, issued, unexpired claim or claims" of this patent, the various prayers necessitate the construction of the contract and an interpretation of

patent law. No useful purpose would be served by forcing the plaintiff to terminate the contract before bringing suit. (at Id. 1332)

The Court also interpreted Thiokol I as a case in which the sole difference between the absence or presence of a case or controversy was the termination of a license agreement. The Court ruled that difference irrelevant under the policy of Lear. Accordingly, declaratory judgment jurisdiction raised federal patent law questions thereby conferring "patent law jurisdiction" on the Court. See also: PPG Industries, Inc. v. Westwood Chemical, Inc. 530 F.2d 700, 707 (6th Cir. 1976).

(c) Atlas Chemical Industries
v. Moraine Products

In Atlas Chemical Industries, Inc. v. Moraine Products, 509 F. 201 (6th Cir. 1974) plaintiff was also a licensee who sought a declaratory judgment of invalidity of the patent under which it was licensed. Jurisdiction was initiated on authority of Lear, Inc. v. Atkins, supra. The District Court in that case ordered that royalties be escrowed during the pendency of the litigation and thereafter held the patent to be invalid but ordered the escrowed royalties paid over to the patentee. The Court of Appeals affirmed the finding of invalidity, but reversed the order turning the escrowed monies over to the patentee:

The present suit is an action by a licensee, Atlas, attacking the validity

of a patent owned by the licensor, Moraine. The instant case is the type of suit authorized by Lear v. Atkins.... The right of Atlas to bring this action as licensee to litigate the validity of the patent therefore is unquestioned. (emphasis by the Court). (at 5)

The case reinforces the holding in Medtronic, Inc. v. American Optical Corp., supra, that a case or controversy is stated by a declaratory judgment action brought by a licensee to have the licensed patent declared invalid, and further, that the "arising under" jurisdiction is proper.

(d) American Sterilizer Co.
v. Sybron Corp.

In American Sterilizer Co. v. Sybron Corp. 526 F. 2d 542 (3rd Cir. 1975) the Third Circuit Court of Appeals reinstated plaintiff-licensee's declaratory judgment counts seeking to have the licensed patent declared invalid and not infringed. Jurisdiction for these counts was asserted to be under 28 U.S.C. §1338 (at 544). The District Court had earlier dismissed the federal "arising under" jurisdiction counts and refused to permit the licensee to attack the validity of the patents without first terminating the license agreement (at 545). The Court of Appeals reversed that ruling "in its entirety" (at 549), holding that the federal policy of free competition in ideas which do not merit patent protection, as expressed in Lear, required that a licensee be permitted to contest the validity of that patent without first terminating

the license agreement, and that such an action by the licensee arose under patent law conferring jurisdiction under 28 U.S.C. §1338 (at 546). The Court cited Lear and Atlas in support of its holding.

Allied sought to distinguish Medtronic and American Sterilizer on page 19 of its Memorandum, on the ground that those cases involved new and different products. If this were a legitimate distinction, it is without a difference here. Here, the plaintiffs must embark on a major expansion of their production and sale of F.D. & C. Red No. 40 and in essence establish a new business in the product. Nor is there any reason that a justiciable controversy should vest when a new product is involved but not attach where business expands on an existing product when in either instance the patentee/licensor has placed the licensee in apprehension of litigation. To the contrary, plaintiffs submit that on the facts of this case, Allied's prior history of litigation, its refusal to renegotiate and its expressed desire to be the sole manufacturer of the product are confirmatory of plaintiffs' reasonable apprehension.

Allied also attempted to distinguish American Sterilizer by stating that the presence of a justiciable controversy was not questioned in the appellate court. Issue is taken with t statement in view of the quotation from the district court's Order which was the basis for the

appeal. The District Court appears to have applied the same reasoning as in Thiokol I in refusing to permit an attack on the patent before termination of the license agreement. Such a holding would have had to be grounded on the Thiokol I view that there can be no justiciable controversy between licensee and licensor while the license agreement remained in force. The Court of Appeals in American Sterilizer expressly rejected this view and thereby indirectly overruled Thiokol I.

(e) Dahlgren Mfg. Co. v. Harris Corp.

In Dahlgren Mfg. Co. v. Harris Corp., 399 F. Supp. 1253 (N.D. Tex. 1975) supra, defendant-licensee was sued for appropriation of trade secrets and breach of contract. Licensee counterclaimed for a declaratory judgment that the licensed patents were invalid. The Court posed the issue as follows:

The first counterclaim presents the novel question of whether a patent licensee operating under a cross-licensing agreement can raise by Declaratory Judgment in a counterclaim the issue of invalidity of the patent which is the subject of the license agreement when the original complaint filed by the licensor has not alleged infringement but only common law unfair competition and breach of contract. The issue presented is whether in these circumstances a declaratory judgment action creates an actual case or controversy arising under the patent laws and invoking the jurisdiction of this federal court. (emphasis added). (399 F.Supp. at 1254)

And held at 1256 that:

...the Lear analysis is dispositive of the question of whether the presentation of a patent validity issue by the licensee raises a justiciable controversy. It is apparent that the question of the validity of the Dahlgren patents pervades the entire history of the conflict between the parties. To hold that the Defendant's first counterclaim does not present a justiciable issue would be to ignore the realities of the parties' relationship. It was this type of situation that the Lear decision was meant to cure.

In so holding, the Court rejected the licensor's reliance on Thiokol I, supra, that there was no declaratory judgment jurisdiction since the license was in effect and there had been no charge of infringement:

I find that an actual controversy exists over the validity of the Dahlgren patents. (at 1256)

(f) Hanes Corp. v. Millard

Hanes, 531 F. 2d 585 (D.C. Cir. 1976) is discussed in greater detail in the following section; however, it is sufficient to point out that the Court of Appeals for the District of Columbia held that a licensee may file a declaratory judgment action under 35 U.S.C. §1338 to declare the underlying patent invalid. At the same time the Court rejected the reasoning of the Thiokol cases.

The instant case, it is submitted, is controlled by the rules of law set forth in Lear, as implemented by Medtronic, Dahlgren, Atlas, American Sterilizer and Hanes.

The actual controversy between the parties as to the validity, infringement and enforceability of Allied's patents, as created by the business realities of this case, rebuts any allegation that an advisory opinion is sought. The plaintiffs' businesses are not hypothetical. They are producing F.D. & C. Red No. 40 today and must continue to do so if they wish to remain competitors in the color industry.

Consequently, a licensee states an actual controversy under the Declaratory Judgments Act between himself and his licensor when he attacks the validity of a licensed patent.

B. This Action Arises Under the United States Constitution Article I, Section 8 and Under the Patent Laws, Thereby Giving Rise to Jurisdiction Under 28 U.S.C. §§1331 and 1338

1. Jurisdiction Under 28 U.S.C. §§1331 and 1338 Is Proper

(a) Plaintiffs' Declaratory Judgment Complaint "Arises Under" Federal Law

Allied argues that plaintiffs are doing no more than raising a "defense" to a threatened state contract action for royalties by Allied, citing American Well Works Co. v. Layne & Bowler Co., 241 U.S. 257, 260 (1916) and Public Service Comm'n. v. Wycoff Co., 344 U.S. 237, 248 (1952). Allied denies that plaintiffs' action can "arise under" the patent laws; and contends that as a "defense" it arises under the law that

created the cause of action (Allied's Memorandum, pp. 21-24).

After citing the Thiokol cases, and W.R. Grace & Co. v. Union Carbide Corp., 319 F.Supp. 307, 312 (S.D.N.Y. 1970), Allied comes to the erroneous conclusion that it can only bring suit against plaintiffs in state court for payment of royalties (Allied's Memorandum, pp. 24-26).

These arguments ignore the true nature of plaintiffs' action. Plaintiffs claim is based on the business realities that an actual controversy exists between the parties over the validity, infringement and enforceability of the Allied patents and consequently, federal law gives them the right to bring this action. It has nothing to do with its being a "defense" to a hypothetical state contract action by Allied,* as was the situation in the Thiokol cases and in Grace.

Justice Holmes states in American Well Works that the Declaratory Judgments Act may be sufficient to define a basis for a cause of action; however, it is not necessary. In Smith v. Kansas City, Title & Trust Co., 255 U.S. 180 (1921) a non-diverse plaintiff sued in federal court under federal "arising under" jurisdiction for an injunction to restrain the defendant from investing in certain bonds which were not approved securities under state law, but were permissible under federal

* In fact plaintiffs fear an infringement action by Allied in view of Allied's desire to be the sole manufacturer of F.D. & C. Red No. 40.

law. The Court reasoned, over the dissent of Justice Holmes, that in order for the plaintiff to prevail, he must show that the underlying Act of Congress was invalid. Accordingly the Court held plaintiff stated a federal cause of action and properly invoked the district court's "arising under" jurisdiction:

The general rule is that, where it appears from the bill or statement of the plaintiff that the right to relief depends upon the construction or application of the Constitution or laws of the United States, and that such federal claim is not merely colorable, and rests upon a reasonable foundation, the District Court has jurisdiction under this provision.

At an early date, considering the grant of constitutional power to confer jurisdiction upon the federal courts, Chief Justice Marshall said:

"A case in law or equity consists of the right of the one party, as well as of the other, and may truly be said to arise under the Constitution or a law of the United States, whenever its correct decision depends upon the construction of either," *Cohens v. Virginia*, 6 Wheat. 264, 379 (5 L. Ed. 257); and again, when "the title or right set up by the party, may be defeated by one construction of the Constitution or law of the United States, and sustained by the opposite construction." *Osborn v. Bank of the United States*, 9 Wheat. 738, 822 (6 L. Ed. 204). 255 U.S. at 199.

This controlling law is applied in the Second Circuit and is applicable to the application of 28 U.S.C. §1338 as well. See, e.g., JFD Electronics Corp. v. Channel Master

Corp., 229 F.Supp. 514, 516 (S.D.N.Y. 1964); I.C.E. Corp. v. Armco Steel Corp., 201 F.Supp. 411, 413 (S.D.N.Y. 1961); Ostow & Jacobs, Inc. v. Morgan-Jones, Inc., 180 F.Supp. 38, 42 (S.D.N.Y. 1959).

JFD Electronics involved a non-diverse licensee-plaintiff who sued in the Southern District under 28 U.S.C. §1338(a) to declare the patent of licensor-defendant's, under which plaintiff was licensed, to be invalid and not infringed. Previous patent infringement litigation was settled by the issuance of the license agreement.

The licensor challenged federal "arising under" jurisdiction on the apparent ground that any charge of infringement by the licensor was a state contract matter and not a federal §1338 matter. The Court in JFD Electronics rejected this argument, even before Lear, saying:

The nearest case in point is Ostow & Jacobs, Inc. v. Morgan-Jones, Inc., 180 F.Supp. 38 (S.D.N.Y. 1959). Judge Dimock there reasoned that charges of infringement amounted to defamation of product, a type of unfair competition and a cause of action under New York law. Judge Dimock further reasoned that to prove such a cause of action plaintiff must show either invalidity of the patent involved or non-infringement; that thus "an aspect of the federal law of patents is essential to plaintiff's success" (180 F.Supp. at 43); and that this Court has jurisdiction of the action as one arising under the patent laws within the doctrine of Smith v. Kansas City Title & Trust Co., 255 U.S. 180, 41 S.Ct. 243, 65 L.Ed. 577 (1921). (229 F.Supp. at 516)

Plaintiffs submit that there are two lines of cases which Allied is trying to meld into one legal proposition. This only serves to becloud the real issues. The cases split along the line of whether the issue that started the conflict between the parties (licensee and licensor) is payment of royalties reflecting a difference of opinion of contract interpretation or validity of the patent underlying the license agreement.

Typically in the first situation, a licensor will claim that royalties are due under the license for a certain product and the licensee will disagree with that claim. In these situations, the courts have held that licensees seeking to invalidate the licensed patents do not state federal "arising under" jurisdiction because the real controversy concerns the interpretation of the agreement which is a state question. This type of case has its origin in the state courts where the licensor is seeking royalties; thereafter, perhaps as an afterthought, the licensee brings his own declaratory judgment action in federal court seeking to invalidate the licensed patents. The federal courts have recognized the true nature of the controversy and declined to exercise their discretion to hear the licensees' invalidation case so long as the license agreement was not terminated. Thiokol cases, supra; Grace v. Union Carbide, supra. It is in cases of this nature that the doctrine of Public Service Comm'n. v. Wycoff

Co., supra, is controlling.

However, in the latter type of case a licensee initially will attack the validity of the patent underlying the license in federal court asserting federal "arising under" jurisdiction, the controversy being over the validity of the patent. The federal courts have recognized that in this type of case the true controversy is the patent's validity and have exercised their discretion to try the licensee's invalidation case, notwithstanding the fact that the license agreement was not terminated. JFD Electronics,^{*} supra; Medtronic, supra; Dahlgren, supra; Atlas Chemical Industries, supra; American Sterlizer, supra; PPG Industries, Inc. v. Westwood Chemical, Inc. 530 F.2d 700 (6th Cir. 1976). In these cases the doctrine of Smith v. Kansas City Title & Trust Co., supra is controlling.

Hanes Corp. v. Millard, 531 F. 2d 585 (D.C. Cir. 1976) follows the lines of distinction set out hereinabove. In Hanes, plaintiff, the equivalent of a licensee of the defendants (at 593 n. 6), brought a declaratory judgment action to declare the licensed (and expired) patent invalid and not infringed, and in a second count to declare defendant's royalty claim barred by the statute of limitations. Prior to the commencement of the action, defendants had

* In this pre-Lear case, the Court limited the plaintiff-licensee's case to non-infringement.

instituted arbitration proceedings in France to recover past royalties from plaintiff; the arbitration was started pursuant to the provisions of the "license" agreement between the parties.

Plaintiff moved for summary judgment on the statute of limitations count in the District of Columbia case and the District Court granted the motion which rendered the patent validity count moot or premature (at 590).

The Court held that the statute of limitations count was in reality a defense to the arbitration proceedings and as a contract matter should be permitted to proceed in the tribunal originally agreed to by the parties, citing Public Service Comm'n v. Wycoff Co. (at 596).

As to the patent invalidity count, the Court held that the foreign arbitration panel was not competent to decide U.S. patent law (at 593). In effect, there was no prior court action to which the patent validity issues could be tried, and therefore the District Court should have exercised its discretion under its 28 U.S.C. §1338(b) "arising under" jurisdiction (at 592, 594 n. 8), albeit to stay such proceedings until the contract issues have been determined by the arbitration panel (at 600). In support of its holding that the District Court had "arising under" jurisdiction, the Appellate Court cited Smith v. Kansas City Title & Trust Co., supra, and distinguished the Thiokol cases. See 594-595 n. 8.

The Court, in rejecting the broad holdings in the Thiokol cases cited, inter alia, Medtronic and JFD Electronics and pointed out that just as in a plaintiff-licensee declaratory judgment situation, the licensor could also bring its own coercive suit against the licensee for infringement (at 594 n. 8). Compare this holding to Allied's contention in its Memorandum on pages 23, 25 and 26.*

The instant case is governed by the rule that where the real controversy involves the contract, it is subject to contract law, but where, here, the real controversy involves the validity, infringement and enforceability of the patent, the case is subject to federal law and "arises under" 28 U.S.C. §§ 1331 and 1338.

(b) Plaintiff's Complaint "Arises Under"
Federal Law

The inherent deficiency in Allied's dispute over jurisdiction is that Allied failed to realize the nature and substance of plaintiffs' claim--it is an offensive action to

* Allied's reliance on Arvin Industries, Inc. v. Berns Air King Corp., 510 F. 2d 1070 (7th Cir. 1975) is misplaced since on its face, the plaintiff-licensor pleaded the license agreement which authorized the very use of the patent charged to be infringed. This barred the plaintiff from charging infringement. Obviously, Allied is not limited to a contract action since it might seek to charge that plaintiffs have breached and effectively terminated the license, and therefore charge plaintiffs with infringement.

establish invalidity of patents and thereby their rights under the Constitution and the Patent Laws. Plaintiffs' right to freely and without the payment of royalties, use subject matter in the public domain is federal law defined in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231 (1964); Compeco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 237 (1964). Lear, Inc. v. Atkins, 395 U.S. 653 (1969).

Thus, those cases upon which Allied relies which refer to anticipatory defenses as not establishing declaratory judgment jurisdiction are all inapposite. Plaintiffs are true plaintiffs in this Court, not prospective or anticipatory defendants. They are plaintiffs establishing their federal rights to unhindered competition in F.D. & C. Red No. 40 as announced in Lear. The rights they seek depend entirely upon the Patent Laws, 35 U.S.C. Their rights are federal; 28 U.S.C. §§1331 and 1338 confer jurisdiction on this Court to hear plaintiffs' claim.

28 U.S.C. §1331 confers jurisdiction in cases "arising under the Constitution [and] laws of the United States." In Ivy Broadcasting Co. v. American Tel & Tel. Co., 391 F.2d 486 (2nd Cir. 1968) this Circuit's Court of Appeals stated the test "whether a complaint presents a federal question" is:

whether the complaint is for a remedy expressly granted by an act of Congress or otherwise "inferred" from federal law,

or whether a properly pleaded "state created" claim itself presents a "pivotal question of federal law," for example because an act of Congress must be construed or "'federal common law' govern[s] some disputed aspect" of the claim.

The Court continued at 492:

The word "laws" in §1331 should be construed to include laws created by federal judicial decisions as well as by congressional legislation. The rationale of the 1875 grant of federal question jurisdiction--to insure the availability of a forum designed to minimize the danger of hostility toward, and specially suited to the vindication of, federally created rights--is as applicable to judicially created rights as to rights created by statute.

The contracts between the parties are not at issue here. The controversy is the validity of two patents and the propriety of Allied's exercise of rights thereunder. The controlling law is Title 35, U.S.C. as well as federal judicial decisions relating to the misuse and acquisition of patent rights.

Substantive federal issues all bearing on this controversy are defined by Title 35, U.S.C. to wit:

- §154 - The grant of a right to exclude.
- §261 - Authorization to use an invention.
- §271(d)(1)- The right to "derive revenue" from a patent.
- §§100-104 - Criteria for patentability.

35 U.S.C. §282 is also pertinent:

...The burden of establishing invalidity of a patent shall rest on the party asserting it.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

- (1) Noninfringement, absence of liability for infringement or unenforceability,
- (2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,
- (3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title.

Plaintiffs' rights and remedies arise under these statutory provisions and they are entitled to bring this original federal action to vindicate these rights.

Allied argues extensively that plaintiffs are licensees. However, the existence of license agreements is irrelevant to jurisdiction. "Arising under" jurisdiction is bolstered by the licenses because their existence removes any contract issue from this case and permits the major issues in this action, patent validity and enforceability to be tried by a federal court and does not involve any state

contract law.* It has long been held that patent validity is a question "arising under" federal laws. Grip Nut Co. v. Sharp, 124 F.2d 814 (7th Cir. 1941).

In sum, the plaintiffs are no mere anticipatory defendants. They are like any party making a claim under a federal right in excess of \$10,000, whether it be a victim of an unconstitutional search, Bell v. Hood, 327 U.S. 678, (1946); "[T]he alleged violations of the Constitution here are not immaterial but form rather the sole basis of the relief sought" (327 U.S. at 673); or an interest group seeking to enjoin a regulation, League To Save Lake Tahoe v. Tahoe Reg.

* It is also noted that for one reason or another, Allied at page 21 of its Memorandum has omitted a significant portion of §1338 under which federal courts are granted jurisdiction in patent cases "exclusive of the Courts of the states".

Quoted in full text 28 U.S.C. §1338 reads:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trademark laws.

Plan. Agcy., 507 F. 2d 517 (9th Cir. 1974); cert. denied 420 U.S. 974 (1975); or any other class of federal plaintiffs. Indeed, private suits involving Constitutional rights, where diversity does not exist are well known. See: Ballard Fish & Oyster Co. v. Glaser Constr. Co., 424 F.2d 473 (4th Cir. 1970) [non-diverse parties with jurisdiction under § 1331]. Plaintiffs here state a federal claim for relief and this Court has jurisdiction to hear it.

"It is a clearly established principle that the federal courts are charged with the primary duty of vindicating federal rights." Nihisen v. Sendak, 405 F.Supp. 482, 493, (N.D.Ind. 1976).

Hence, this Court has federal "arising under" jurisdiction.

C. 28 U.S.C. §1332 Serves as an Independent Basis for Jurisdiction in This Action

1. Complete Diversity of Citizenship is Not Required as a Basis for Jurisdiction in This Action

Allied's contention at page 30 of its Memorandum that it is "well-settled that [28 U.S.C. §1332] requires complete diversity between all parties plaintiff and all parties defendant" does not fairly state the law. Indeed, even Allied's lead case, State Farm Fire & Cas. Co. v. Tashire, 386 U.S. 523 (1967) holds expressly contrary.

State Farm deals with "... 'minimal diversity,' that is, diversity of citizenship between two or more claimants,

without regard to the circumstance that other rival claimants may be co-citizens" (at 530). The Supreme Court held in examining jurisdiction on its own motion that:

...in a variety of contests this Court and the lower Courts have concluded that Article III poses no obstacle to the legislative extension of federal jurisdiction, founded on diversity, so long as any two adverse parties are not co-citizens. (at 531)

State Farm also considered another of Allied's authorities, Strawbridge v. Curtiss, 3 Cranch. 267 (1806) in regard to legislative construction of the diversity statutes. On the issue whether "complete diversity" is required to sustain jurisdiction in Federal courts, the Court observed in State Farm in footnote 6, 386 U.S. at 531:

Subsequent decisions of this Court indicate that Strawbridge is not to be given an expansive reading. See, e.g., Louisville Railroad Co. v. Letson, 2 How. 497, 554-556 (1844), expressing the view that in 1839 Congress had in fact acted to "rid the courts of the decision in the case of Strawbridge and Curtis".

Indianapolis v. Chase National Bank, 314 U.S. 63 (1941), another Allied authority, was decided long before State Farm. The issue Indianapolis considered can be more fairly characterized as one of "jurisdictional integrity" rather than jurisdictional basis as is disputed here. In Indianapolis it was said that "Indianapolis Gas and Chase [respectively beneficiary and its own trustee] are on the same side of the controversy not only for their own purposes but

also for purposes of diversity jurisdiction" (at 74). Thus, once true interests of the parties were realized, despite the parties' own adverse alignment, diversity was absent in Indianapolis because the interest of the trustee plaintiff was identical to that of its beneficiary who was named as a defendant and the controversy was in fact that of the beneficiary defendant and its co-defendant, both of whom were non-diverse.

The irrelevance of Indianapolis to the case at bar is illustrated by the court's discussion of the rationale of diversity jurisdiction:

The dominant note in the successive enactments of Congress relating to diversity jurisdiction, is one of jealous restriction, of avoiding offense to state sensitiveness, and of relieving the federal courts of the overwhelming burden of "business that intrinsically belongs to the state courts," in order to keep them free for their distinctive federal business. 'The policy of the statute [conferring diversity jurisdiction upon the district courts] calls for its strict construction. The power reserved to the states, under the Constitution, to provide for the determination of controversies in their courts may be restricted only by the action of Congress in conformity to the judiciary sections of the Constitution. Due regard for the rightful independence of state governments, which should actuate federal courts, requires that they scrupulously confine their own jurisdiction to the precise limits which the statute has defined.' In defining the boundaries of diversity jurisdiction, this Court must be mindful of this guiding Congressional policy. (Citations omitted.) (at 76-77).

In the instant case, involving patents, there is

no state question such as real estate law, negligence or divorce. Instead, the issues are those of patent law, "a distinctive federal business," granted by the Constitution to the federal government exclusively [U.S. Const., Art. I, §8].

Further, jurisdiction of the federal courts with regard to patents is by statute "exclusive of the courts of the states", 28 U.S.C. §1338. Hence, where in the instant case, all issues are federal, no "state sensitivities" will be "offended" by this Court's decision of the case. On the contrary, dismissal of this action by a federal court and its reinstitution in a state court would have the opposite result, allowing a constitutionally inferior state court to usurp powers granted exclusively to the federal government and the federal judiciary by the Constitution (U.S. Const., Art. I, §8; Art. III, §2; Art. VI).

Schultz v. Cally, 528 F.2d 470 (3rd Cir. 1975) is, if anything, an amorphous decision. Even the Court admitted at 472 "the presentation of the case in this court has been seriously deficient". Nor did Schultz address the propriety of (1) federal question jurisdiction as a basis for the case; or (2) whether, if diversity existed between plaintiff and one defendant, the remaining defendant could intervene on any basis and not destroy jurisdiction which attached originally. In passing, plaintiffs note that Strawbridge, as well as

Quaker State Dyeing & Finish Co. v. ITT Terryphone Corp., 461 F.2d 1140 (3rd Cir. 1972) were relied upon in Schultz Strawbridge in the context of this case is discussed above. Quaker State discusses diversity solely with regard to common law negligence and tort, which again are solely state law issues, Erie R.R. Co. v. Tompkins, 304 U.S. 64 (1938), and which as discussed above, have no application to the present controversy.

2. Kohnstamm May Properly Intervene

(a) Allied's Authorities Do Not Preclude the Intervention of Kohnstamm as a Plaintiff

Isbrandtsen Co. v. S.S. Kokah Maru, S.S. Kochu Moru, 263 F.Supp. 784 (1966) cited by Allied against Kohnstamm's intervention, involved a libel in admiralty pending in this federal court. A third party, which was also a party to a pending contract action in New York Supreme Court, moved to intervene in the admiralty action five years after the libel was filed in federal court. The motion to intervene was also heard after the libel was dismissed without prejudice! This Court did note the application was not timely, an "essential" burden of an intervenor.

Isbrandtsen denied intervention also because the intervenors had no personal interest in the subject of the case and because the federal libel "could have no effect (e.g., res judicata) on intervenor's claim in the New York

court" (at 785).

The Court specifically stated that it was only "under th[o]se circumstances" that "permissive intervention must have independent jurisdictional grounds". Rather than fulfilling any purpose of judicial economy, the intervenor in Isbrandtsen sought reinstitution of a case already dismissed to try issues already involved in another action.

Here, Kohnstamm's application to intervene is fundamentally different. Kohnstamm applies at the commencement of suit; there is no other action pending. Kohnstamm and Warner-Jenkinson are not strangers to each other or to Allied. Kohnstamm is a customer of Warner-Jenkinson. The separate license agreements of each with Allied (1) were jointly negotiated; (2) arose out of the same settlement of a prior action, and (3) continue to be affected by actions of the other. For example, for licensed goods Kohnstamm purchases from Warner-Jenkinson, Warner-Jenkinson passes on to Kohnstamm its "immunity from liability for infringement" [License, Paragraph 2.1]. A "Favored Licensee Protection" in Article VI relates either's license to the other and to yet other licensees. Paragraph 12.2 deals with escrow and royalty rates in the event of third party litigation by Allied. Thus, Kohnstamm is intertwined with Warner-Jenkinson by licenses which they together negotiated; by their supplier-customer relationship with respect to a product for which

there is no substitute; and by their rights and obligations affected by the other because their separate licenses are identical. As to this action Kohnstamm's pleading is identical to Warner-Jenkinson's; it is the same document! Hence, there are no issues which are different between Kohnstamm and Allied and Warner-Jenkinson and Allied which will expand and complicate the action beyond the issues originally presented.

Nor does Gentry v. Hibernia Bank, 154 F.Supp. 62 (N.D.Cal. 1956) relied upon heavily by Allied, compel denial of Kohnstamm's intervention. In Gentry two diverse Oregon plaintiffs sued a California defendant. By means of 16 additional complaints, some 59 non-diverse Californians moved to intervene permissively in the action. While the Court noted as Allied quotes, "the 59 are not in truth or in fact intervenors in any sense whatever, [t]hey are just plain plaintiffs", the Court also scolded:

It is not amiss to point out, also, that all of the 61 have their causes pending in state court, some of them for several years, one even now in the Supreme Court of California. They are there represented by the same counsel as here. The causes are peculiarly local, involving the construction of California statutes.

Without more, under these circumstances, it is sufficient to say that we are busy enough with legitimate federal causes, not to be bothered with local litigation, artfully, but not very

successfully, dressed up in federal habiliments. (Emphasis added.) (at 63).

Thus, again rather than serve judicial economy, the intervention in Gentry multiplied litigation, duplicating already pending suits in which the issues were "peculiarly local, involving the construction of California statutes".

Here, a diverse plaintiff, Warner-Jenkinson and its non-diverse customer, Kohnstamm, both seek determination of their federal, not state, rights in one federal court action. No other actions are pending. Certainly judicial resources could not be conserved were Kohnstamm relegated to state court to have its case heard. Indeed, the sound current practice in patent suits is to avoid duplicative customer and supplier suits by requiring intervention so that all parties may effectively be included in one suit.

To avoid expense to the parties, duplication of judicial effort and the risk of different results in truly separate jurisdictional court systems, this Court should permit Kohnstamm's intervention.

(b) Kohnstamm Need Not Be Diverse
With Allied For Intervention

Kohnstamm's relationship to Warner Jenkinson giving rise to its motion for intervention is set forth in the preceding section. Under Rule 24, Fed. R. Civ. P., Kohnstamm may properly intervene both as of right and permissively. In

either case, Kohnstamm's intervention will not destroy the jurisdictional basis for this Court to proceed, even if diversity of citizenship is the sole basis for jurisdiction.

Phelps v. Oaks, 117 U.S. 236 (1886) holds that the intervention as defendant of a non-diverse party, after diversity jurisdiction is vested in the Court, does not destroy the Court's jurisdiction. There, the Supreme Court noted at 241 that lack of diversity:

...need not arrest or interfere with the jurisdiction of the court, already established by the plaintiffs against the tenant in possession; for such proceedings should be treated as incidental to the jurisdiction thus acquired, and auxiliary to it, as in like cases, in equity, one interested in the subject matter, though a stranger to the litigation, may be allowed to intervene....

Similarly, in Wichita R. & Light Co. v. Public Utilities Commission, 260 U.S. 48 (1922), the Supreme Court held at pages 53-54:

...The intervention of the Kansas Company, a citizen of the same state as the Wichita Company, its opponent, did not take away the ground of diverse citizenship. That ground existed when the suit was begun and the plaintiff set it forth in the bill as a matter entitling it to go into the District Court. Jurisdiction once acquired on that ground is not divested by a subsequent change in the citizenship of the parties.... Much less is such jurisdiction defeated by the intervention, by leave of the court, of a party whose presence is not essential to a decision of the controversy between the original parties....

Like the Kansas Company, Kohnstamm, while a proper party, is alternatively not an indispensable party to Warner-Jenkinson's suit and therefore would not require an original ground of jurisdiction for permissive intervention.

In Northeast Clackamus C.E. Co-Op. v. Continental Cas. Co., 221 F.2d 329 (9th Cir. 1955), the Court allowed a contractor's complaint in intervention in the contractee's suit against the surety. Despite the lack of diversity of citizenship between the contractor and plaintiff, the Court noted at 232:

...certainly established jurisdiction will not be divested by the intervention of a dispensable party of the same citizenship as the original plaintiff, if such intervention be without collusion and authorized by procedural rules.

Although the trial court had found that the contractor could intervene as a matter of right, the Court of Appeals specifically stated that permissive intervention would also be proper because of the existence of identical questions of fact and law. Thus, by means of intervention as of right and by permissive intervention, Kohnstamm's lack of diversity of citizenship with Allied will not defeat the Court's jurisdiction where jurisdiction has vested in Warner-Jenkinson's suit against Allied.

See also, Drillers Engine & Supply, Inc. v. Burckhalter, 327 F.Supp. 648 (W.D.Okla. 1971) where lack of

diversity did not preclude intervention by a non-diverse plaintiff. Chalmers v. United States, 43 F.R.D. 286 (D.Kan. 1967), also allowed intervention of testator's children in the executrix' suit against the Government for refund of estate taxes. There the Court noted at 289, 290:

...intervenor's are not required to meet jurisdictional requirements as to diversity and amount in controversy where the Court's jurisdiction was established in the original suit....

Thus, the foregoing cases establish that independent grounds for diversity of citizenship jurisdiction are not prerequisite to intervention. Kohnstamm's intervention in the suit by Warner-Jenkinson, where the diversity of citizenship is well established, presents no barrier to this Court's jurisdiction. Kohnstamm's claim is identically related to that of the original suit. Hence, Kohnstamm's intervention is not in a suit in which a "straw" diverse party is first named plaintiff and others then intervene upon a fraudulent basis for jurisdiction. Rather, Kohnstamm's intervention is based upon the fact that Kohnstamm's claim and Warner-Jenkinson's main action both have identical questions of law and fact in common.

This Court has extensively discussed intervention under Rule 24, Fed. R. Civ. P. in United States v. Local 638, Enterprise Ass'n, Etc., 347 F.Supp. 164 (S.D.N.Y. 1972) where it was stated:

...independent federal jurisdiction is not required whether jurisdiction in the original action is based on diversity of citizenship or on a federal question. See *United States to Use and for Benefit of Foster Wheeler Corp. v. American Surety Co. of New York*, 142 F.2d 726, 728 (2 Cir. 1944); 3B *Moore's Federal Practice* ¶24.18[1] (2d ed. 1969). (at 165.)

Where permissive intervention was at issue, the question of subject matter jurisdiction, as Allied raises herein was discussed at 167:

...if the suit proposed to be initiated by the intervenor is "ancillary and dependent, the jurisdiction of the court follows that of the original cause, and may be maintained without regard to the citizenship of the parties or the amount involved." *Local Loan Co. v. Hunt*, 292 U.S. 234, 239, 54 S.Ct. 695, 697, 78 L.Ed. 1230 (1934).³ This Circuit has stated that an ancillary suit may be maintained, inter alia, "[t]o prevent the relitigation in other courts of the issues heard and adjudged in the original suit." See *Pell v. McCabe*, 256 F. 512, 515 (2 Cir.), *aff'd*, 250 U.S. 573, 40 S.Ct. 43, 63 L.Ed. 1147 (1919).⁴ "If a court has jurisdiction of the principal suit, it also has jurisdiction of any ancillary proceeding in that suit. Neither the citizenship of the parties, nor the amount in controversy, nor any other factor that would ordinarily determine jurisdiction, has any bearing on the right of the court to entertain that proceeding." *Id.* quoting 2 *Street's Federal Equity Practice* §1229.⁵ (Footnotes omitted.)

Even assuming diversity as a basis for the main action, the Court noted:

In diversity cases, the absence of independent federal jurisdiction has not defeated permissive intervention where the party was dispensable. E.g., Northeast Clackamas County Electric Co-Operative, Inc. v. Continental Cas. Co., 221 F.2d 329, 331-333 (9 Cir. 1955), relying on Wichita R.R. & Light Co. v. Public Utilities Comm'n, 260 U.S. 48, 54, 43 S.Ct. 51, 53, 67 L.Ed. 124 (1922) ('Jurisdiction once acquired on that [diversity] ground is not divested by a subsequent change in the citizenship of the parties.'). (at 168 n. 7.)

Just as in Local 368, Kohnstamm's intervention herein would serve every purpose of conserving judicial resources. To paraphrase the Court at 347 F.Supp. 168, 169 in Local 368:

While it is true that [Kohnstamm] could simply wait for the decision of this Court and abide by its terms, there is no assurance that it would wait, and the intervenor's complaint comes within the ancillary jurisdiction of this Court. Intervention would insure that there will be no conflicting order [affecting Kohnstamm] outstanding when the federal case is ended. Cf. Voutsis v. Union Carbide Corp., 452 F.2d 889, 893 (2 Cir. 1971). It will make for uniformity in defining the rights of [Allied in the patents] in which [Kohnstamm] has a vital interest, both as a [licensee] of those rights and as a contracting party whose financial interests are involved.

(c) Adjudication of the Action Without Kohnstamm Would Be Prejudicial

Allied's contention that Kohnstamm's interests would not be adversely affected were this action to proceed

without Kohnstamm should be given no weight.

In view of all the issues in this action, Allied's reliance on Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971) is to no avail to Kohnstamm to remove the apprehension of a second suit after determination of issues by Warner-Jenkinson. In Kearney & Trecker Corp. v. Cincinnati Milacron, Inc., 403 F.Supp. 1040 (S.D. Ohio 1975), a District Court concluded that when an adverse determination against a patentee was based on enforceability only, relitigation of the patent by the patentee in a second suit on the issue of validity was not estopped by Blonder-Tongue. 403 F.Supp. 1046. Further, the Court of Appeals for the Seventh Circuit in Mercantile National Bank of Chicago v. Howmet Corp., 524 F.2d 1031 (7th Cir. 1975), cert. denied ____ U.S. ____ (1976) has noted that:

A litigant who attacks the validity of a patent before a court that has held the patent valid in a prior case has the burden of persuading the court that there is a "material distinction" between that case and the case at bar. [citations omitted.] For reasons of stability in the law and judicial economy, we ordinarily will not re-examine de novo the decision of the court in the prior case but rather will limit ourselves to a consideration of whether, assuming the correctness of the earlier decision, additional facts not before the court in the prior case require a different result. This is but an application of the doctrine of stare decisis. (at 1032.)

Thus, prior litigation can and does affect Kohnstamm.

Kohnstamm's intervention is not an unusual procedure. As to intervention in a patent suit by a party who is in a customer relationship with an existing party, the Court of Appeals for this Circuit in Stewart-Warner Corp. v. Westinghouse Electric Corp., 325 F.2d 822, (2nd Cir. 1963), cert. denied, 376 U.S. 944 (1964) held at 826:

There is no doubt of the propriety of Canadian's intervention as the manufacturer and vendor to Westinghouse and others of the equipment alleged by Stewart-Warner to be an infringement of its McLennan patent. Chandler & Price Co. v. Brandtjen & Kluge, Inc., 296 U.S. 53, 56 S.Ct. 6, 80 L.Ed. 39 (1935); Yale & Towne Mfg. Co. v. Manning, Maxwell & Moore, Inc., 91 F.Supp. 106 (S.D.N.Y. 1950); Western States Machine Co. v. S.S. Hepworth Co., 2 F.R.D. 145 (E.D.N.Y. 1941).

(d) Kohnstamm's Intervention Will Protect Its Interest and Not Delay or Prejudice the Original Parties

Rule 24(a), Fed. R. Civ. P. considers intervention of right as a "practical matter". Rule 24(b) allows intervention where common questions of law and fact exist. While there are unquestioned issues of law and fact in common, Kohnstamm's intervention as a practical matter must be allowed. "Practically", Kohnstamm intervention will have the following salutary effects:

1. It will avoid the occurrence of two suits.
2. It does not duplicate any pending suit.

3. It will result in a uniformity of decision affecting parties similarly situated and prevent duplicative litigation of the identical issues in a state court.
4. It will hasten determination of Kohnstamm's rights.

To encourage duplicative litigation, or for Kohnstamm to await the decision in the Warner-Jenkinson case would protract "forever" this dispute. Plaintiffs certainly do not wish to impose such a burden on the courts or themselves.

III. CONCLUSION

To sustain the action, plaintiffs need establish only one basis for subject matter jurisdiction. From the foregoing argument, it is manifest that a controversy exists which is ripe for decision and that this Court has the power to adjudicate the action. Therefore, on reason and

authority, plaintiffs pray that this Court deny the Defendant's Rule 12(b)(1), Fed. R. Civ. P. Motion.

Respectfully submitted,

KENYON & KENYON REILLY CARR & CHAPIN

Dated: August 9, 1976
At: New York, New York

By

Francis T. Carr
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

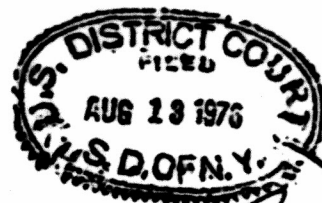
OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

ORDER AND JUDGMENT

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



----- -x
WARNER-JENKINSON COMPANY and :
H. KOHNSTAMM & COMPANY, INC., :

Plaintiffs, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

Civil Action No.

76 Civ. 2744 (MEF)

ORDER + JUDGMENT

This action having come on for hearing on defendant's motion to dismiss the Complaint, brought pursuant to Rule 12(b)(1), F.R.Civ.P., and on plaintiffs' application for an order authorizing the deposit of royalties in escrow, pendente lite, the Court having considered the memoranda and other submissions of the parties, and the Court having heard counsel for the parties and being fully advised,

ADJUDGED + DECREED

IT IS HEREBY ORDERED, THAT:

1. Defendant's motion to dismiss the Complaint is granted.

2. Plaintiffs' application for an order authorizing the deposit of royalties in escrow, pendente lite, is denied.

3. Plaintiffs shall pay to defendant, within fifteen (15) days of the entry of this Order, the royalties which were due June 30, 1976, plus 6% interest on said royalties for the period withheld, and which were authorized to be temporarily withheld pursuant to this Court's Order of June 30, 1976, said order having been sought by plaintiffs.

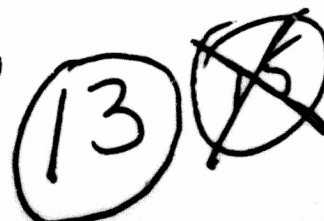
Dated: August 13, 1976

New York, New York

Martin E. Frankel
United States District Judge

JUDGMENT ENTERED - 8/13/76

Raymond F. Rughardt
CLERK



A-240

MICROFILM

AUG 16 1976

MEF

MEF

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X

WARNER-JENKINSON COMPANY :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----X

and

-----X

H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, Intervenor, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----X

CIVIL ACTION

NO. 76 Civ. 2744 (MEF)

MEMORANDUM IN SUPPORT OF APPROVAL
OF SUPERSEDEAS BONDS

Dated: August 25, 1976
At: New York, New York

KENYON & KENYON REILLY CARR & CHAPIN
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs
Warner-Jenkinson and
H. Kohnstamm & Company, Inc.

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers &
Leavitt
611 Olive Street
St. Louis Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson
Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas,
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm &
Company, Inc.

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :
 :
 Plaintiff, :
 :
 v. : Civil Action No.
 :
 ALLIED CHEMICAL CORPORATION, : 76 Civ. 2744 (MEF)
 :
 Defendant. :
-----x

-and-

-----x
H. KOHNSTAMM & COMPANY, INC., :
 :
 Plaintiff, Intervenor :
 :
 v. :
 :
 ALLIED CHEMICAL CORPORATION, :
 :
 Defendant. :
-----x

MEMORANDUM IN SUPPORT OF APPROVAL
OF SUPERSEDEAS BONDS

I. INTRODUCTION

This is a declaratory judgment action challenging the validity, enforceability and infringement of two United States Patents owned by defendant Allied Chemical Corporation. On June 30, 1976 this Court signed an order permitting plaintiffs to withhold royalties due on their license agreements under the patents in suit with defendant without incurring any breach of the license agreements. After a hearing on August 11, 1976, on defendant's motion to dismiss under Rule 12(b)(1) and plaintiffs' motion for escrow of royalties pendente lite, this Court on August 13, 1976, entered an Order and Judgment dismissing the complaint, denying plaintiffs' escrow motion and ordering the payment to defendant of royalties due on June 30, 1976 plus 6% interest for the period withheld. Plaintiffs intend to file a Notice of Appeal from the Order and Judgment of August 13, 1976.

II. ARGUMENT

A. PLAINTIFFS ARE ENTITLED TO A STAY OF THE ORDER
AND JUDGMENT FOR ROYALTIES UPON APPROVAL OF
SUPERSEDEAS BONDS

Rule 62 of the Federal Rules of Civil Procedure states that an appellant may obtain a stay by giving a supersedeas bond: "[I]t is established that a party taking an appeal from an order of the district court involving a money judgment, as is the case herein, is entitled to a stay of that judgment as of right upon the posting of a supersedeas bond..." Ivor B. Clark Co. v. Hogan,

296 F.Supp. 407,409 (S.D.N.Y. 1969), aff'd, 411 F.2d 788 (2d Cir. 1969), cert. denied, 396 U.S. 1006 (1970).

Rule 33 of the Local Rules of the Southern District of New York provides that the court shall fix the amount of the bond where the stay may be effected by the giving of the supersedeas bond, but the judgment or order is not solely for a sum of money. Thus plaintiffs are entitled to a stay of the judgment to pay royalties and interest upon the approval of the amounts of the supersedeas bonds pursuant to Local Rule 33.

B. THE SUPERSEDEAS BONDS OF WARNER-JENKINSON COMPANY AND H. KOHNSTAMM & COMPANY, INC. SHOULD BE APPROVED

Exhibit A to the accompanying Affidavit of Paul Lempel shows that the amount of royalties due from Warner-Jenkinson on June 30, 1976 was \$107,969.71. Six percent (6%) interest on this amount from June 30, 1976 to August 28, 1976, the date by which this Court ordered payment of the royalties, is \$1,079.70. Thus the amount of the judgment against Warner-Jenkinson Company is \$109,049.41. Adding 11% to this amount plus \$250.00 for costs, pursuant to Local Rule 33 of the Southern District of New York yields \$121,294.85 as the amount required for the supersedeas bond.

Exhibit B to the accompanying Affidavit of Paul Lempel shows that the amount of royalties due from H. Kohnstamm & Company, Inc., on June 30, 1976 was \$47,571.00. Six percent (6%) interest on this amount from June 30, 1976 to August 28, 1976, the

date by which this Court ordered payment of the royalties is \$476.00. Thus the amount of the judgment against H. Kohnstamm & Company, Inc. is \$48,047.00. Adding 11% to this amount plus \$250.00 for costs, pursuant to Local Rule 33 of the Southern District of New York yields \$53,582.00 as the amount required for the supersedeas bond.

As provided for in Rule 31 of the Local Rules for the Southern District of New York, the supersedeas bonds will be secured by the deposit of United States Treasury bills with the Clerk of the Court.

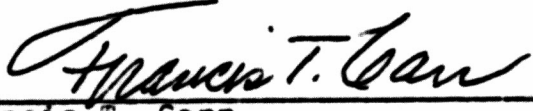
III. CONCLUSION

Plaintiffs are entitled to a stay of the Order and Judgment for payment of royalties and interest upon the approval and filing of their supersedeas bonds. Plaintiffs therefore respectfully request that this Court approve the supersedeas bonds annexed as Exhibits 1 and 2 to the Order to Show Cause dated August 25, 1976.

Respectfully submitted,

KENYON & KENYON REILLY CARR & CHAPIN

Dated: August 25, 1976
At: New York, New York

By 
Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
Attorneys for Plaintiffs
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY and :
H. KOHNSTAM & COMPANY, INC., :

Plaintiffs, : Civil Action No.

v. : 76 Civ. 2744 (MEF)

ALLIED CHEMICAL CORPORATION, :

Defendant. :
-----x

DEFENDANT'S MEMORANDUM IN OPPOSITION
TO PLAINTIFFS' APPLICATION FOR A STAY
CONDITIONED UPON SUPERSEDEAS BONDS

August 27, 1976.

FISH & NEAVE

Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

OF COUNSEL:

William K. Kerr
William J. Gilbreth
John E. Nathan
Hugh C. Barrett
Fish & Neave
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

Roy H. Massengill
Jay P. Friedenson
Allied Chemical Corporation
P. O. Box 10572
Morristown, New Jersey 07960
Tel. 201-455-5127

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY and
H. KOHNSTAMM & COMPANY, INC.,

Plaintiffs, : Civil Action No.

v. : 76 Civ. 2744 (MEF)

ALLIED CHEMICAL CORPORATION,

Defendant. :
-----x

DEFENDANT'S MEMORANDUM IN OPPOSITION
TO PLAINTIFFS' APPLICATION FOR A STAY
CONDITIONED UPON SUPERSEDEAS BONDS

This action is now before the Court on plaintiffs' second application for a stay as to payment of the royalties which are the subject of this Court's Orders of June 30 and August 13, 1976. We submit this memorandum in opposition to plaintiffs' application.

I. INTRODUCTION

Plaintiffs filed this action on June 22, 1976. That afternoon plaintiffs served defendant's counsel with a copy of the complaint and with a copy of an Order directing that defendant show cause why plaintiffs should not be authorized to deposit royalties in escrow during the pendency

of this action -- without breach of plaintiffs' obligations to pay royalties pursuant to license agreements entered into between plaintiffs and defendant in settlement of earlier litigation. Plaintiffs contended that it was necessary to proceed on the basis of an order to show cause because the next royalty payment was due on June 30, 1976. The return date in the Order To Show Cause was 9:15 a.m. on Friday, June 25, 1976.

On June 23, 1976, defendant applied for an adjournment (from June 25, 1976 to July 12, 1976) of the return date specified in the Order To Show Cause. The basis for the application was that (a) one of defendant's attorneys was scheduled to appear at a pretrial conference in Alexandria, Virginia at 10:00 a.m. on June 25, 1976, (b) another of defendant's attorneys was out of town and was not scheduled to return until July 8, 1976, and (c) opposition to plaintiffs' application would require substantial effort on the part of both of defendant's attorneys.

At the June 23, 1976 hearing on defendant's application for the adjournment plaintiffs' attorney said that, if the matter were to be adjourned, it would have to be adjourned beyond July 12, 1976, because he would be out of the country on July 12.

On this record, in an effort to preserve the status quo, this Court ruled that:

1. The hearing date specified in the order to show cause was adjourned to August 11, 1976;

2. Until decision on their pending application, plaintiffs could withhold the royalty payments due June 30, 1976 -- without prejudice to their rights under the license agreement and, specifically, without incurring a breach of the agreements; and

3. "If defendant prevails in opposition to the relief sought by plaintiffs, plaintiffs will pay said royalties due June 30, 1976 plus 6% interest on said sums for the period withheld" [see this Court's Order of June 30, 1976].*

On this basis, the parties submitted extensive memoranda with respect to plaintiffs' application for an order authorizing the deposit of royalties in escrow and with respect to defendant's July 26, 1976 motion to dismiss the complaint for lack of subject matter jurisdiction.

On August 11, 1976, following argument on both motions, the Court granted defendant's motion to dismiss the complaint and denied plaintiffs' application to have royalty

* There was a controversy between the parties, as reflected in proposed orders they submitted to the Court, as to what the Court ruled in chambers on June 23, 1976. We submit that the Court's Order of June 30, 1976 reflects accurately the Court's decision in chambers.

payments placed in escrow [August 11, 1976 Hearing Transcript, p. 21].* When reminded of the June 30 Order, and after plaintiffs requested a stay, pending appeal, as to payment of the royalties that were the subject of that June 30, 1976 Order, the Court denied the stay and ruled that the Order about to be settled could specify that the royalties due June 30, 1976, should be paid within fifteen days. [Tr. 21-23].

An Order and Judgment in accord with the Court's August 11 rulings was entered on August 13, 1976. Plaintiffs expressed an intent to appeal at the August 11, 1976, hearing but over two weeks have elapsed since that time and plaintiffs have not yet filed any Notice of Appeal. Instead, again proceeding by an eleventh hour Order To Show Cause, plaintiffs have once more applied for a stay of the royalties due on June 30. As we shall now demonstrate, plaintiffs' present application for a stay has no more merit than the previous stay application denied by this Court two weeks ago.

II. ARGUMENT

Plaintiffs' present application for a stay is bottomed on the proposition that a party taking an appeal from a "money judgment" is entitled to a stay, as a matter

* Hereinafter, the August 11, 1976, Hearing Transcript pages will be cited as "Tr."

of right, upon the posting of a supersedeas bond. We have no quarrel with that proposition, as an abstract rule of law limited to money judgments, but we submit that such an abstract proposition has no application to the present facts.

This Court's August 13, 1976 Order and Judgment is not a "money judgment". Typically, a money judgment adjudges that a party is liable to pay a sum certain. For instance, as long ago held by then Circuit Judge Taft:

"That is a money judgment which adjudges a defendant either as an individual or in a representative capacity absolutely liable to pay a sum certain to the plaintiff, and awards execution therefor, and which may be fully satisfied by the defendant by paying into court the amount adjudged, with interest and costs." (Fuller v. Aylesworth, 75 Fed. 694, 700-01 (6 Cir. 1896)).

To the same effect is the definition of "money judgment" in Black's Law Dictionary (4th Edition 1957):

"Money judgment. One which adjudges the payment of a sum of money, as distinguished from one directing an act to be done or property to be restored or transferred. [Citing Fuller v. Aylesworth, among other authorities.]"

In light of these definitions it is clear that neither this Court's Order of June 30, 1976, nor this Court's Order and Judgment of August 13, 1976 can be construed as a "money judgment". The first is an interim order, entered

to maintain the status quo in connection with the adjournment of a hearing on plaintiffs' application. The second is an order and judgment on two motions, and sets a cut-off date for specific performance of the Court's June 30, 1976 Order.

The equities which demand specific performance of plaintiffs' obligation to pay royalties pursuant to the license agreements, entered into between the parties in settlement of the earlier litigation before Judge Conner, have been briefed exhaustively in connection with the motions which were decided by the Court on August 11, 1976, and need not be reiterated here. Suffice it to say that plaintiffs' present application for a stay, like its August 11 application, is fundamentally unfair and is in direct conflict with the Court approved settlement of the earlier litigation.


III. CONCLUSION

Plaintiffs' application for a stay as to payment of the royalties due June 30, 1976, conditioned upon the posting of supersedeas bonds, should be denied.

Respectfully submitted,

FISH & NEAVE

August 27, 1976.

By 
William J. Gilbreth
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

OF COUNSEL:

William K. Kerr
John E. Nathan
Hugh C. Barrett
Fish & Neave
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

Roy H. Massengill
Jay P. Friedenson
Allied Chemical Corporation
P. O. Box 1057R
Morristown, New Jersey 07960
Tel. 201-455-5127

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UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

-----X
WARNER-JENKINSON COMPANY, :
Plaintiff, :
v. : Civil Action No.
ALLIED CHEMICAL CORPORATION, : 76 Civ. 2744 (MEF)
Defendant. :
-----X

-and-

-----X
H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, Intervenor :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :
-----X

FILED
U.S. DISTRICT COURT
Aug 77 3 46 PM '76
S.D. OF N.Y.

NOTICE OF APPEAL

Notice is hereby given that Warner-Jenkinson Company, plaintiff above named, and H. Kohnstamm and Company, Inc., plaintiff-intervenor above named, hereby appeal to the United States Court of Appeals for the Second Circuit from the Order and Judgment entered in this action on the thirteenth day of August, 1976, granting defendant's motion to dismiss the complaint, denying plaintiffs' application for an order authorizing the deposit of royalties in escrow, pendente lite, and requiring payment of the

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royalties which were due on June 30, 1976 plus 6% interest on said royalties for the period withheld.

Dated: August 27, 1976
At: New York, New York

KENYON & KENYON REILLY CARR & CHAPIN
Attorneys for Plaintiffs
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.



Francis T. Carr
Paul Lempel
Edwin Baranowski
KENYON & KENYON REILLY CARR & CHAPIN
59 Maiden Lane
New York, New York 10038
(212) 425-7200

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

To :

ATTORNEYS FOR DEFENDANT:

William K. Kerr, Esq.
William J. Gilbreth, Esq.
Fish & Neave
277 Park Avenue
New York, New York 10017

TRANSCRIPT OF AUGUST 27, 1976 HEARING

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY,

Plaintiff,

- against -

ALLIED CHEMICAL CORPORATION,

Defendant.

-----x
H. KOHNSTAMM & COMPANY, INC.,

Plaintiff Intervenor,

- against -

ALLIED CHEMICAL CORPORATION,

Defendant.

-----x
B e f o r e :

HONORABLE MARVIN E. FRANKEL,

District Judge.

New York, New York
August 27, 1976 - 10:30 a.m.

A p p e a r a n c e s :

KENYON & KENYON, REILLY, CARR & CHAPIN
Attorneys for Plaintiff
BY: PAUL LEMPEL, Esq., and
PHILLIP MCCABE, Esq., of Counsel.

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A p p e a r a n c e s : (Cont'd.)

FISH & NEAVE

Attorneys for Defendant

BY: WILLIAM J. GILBRETH, Esq.,
JOHN E. NATHAN, Esq., and
MAURICE KLEE, Esq., of Counsel.

PATRICK J. JOYCE, Esq.

Attorney for Plaintiff Intervenor

- - -

THE COURT: I assume that all five of you
are charging for your time on this matter and I have some
doubt whether you should be.

Mr. Gilbreth, why is this opposed?

MR. GILBRETH: Well, your Honor, this is
opposed for substantially the same reasons that I believe
caused your Honor to deny an essentially identical
application when there was a hearing in this matter on
August 11.

THE COURT: How will you be hurt if they post
this bond?

MR. GILBRETH: We will be hurt, your Honor,
substantially in the sense that, first, because of the
policies favoring the settlement of the earlier litigation
that was approved by Judge Connor of this court, if they
can walk into court on some pretended change in circumstances

and then by posting a bond continue to enjoy the fruits of their license agreements that they entered into in settlement of that earlier litigation without benefiting Allied Chemical at all, then there is nothing left to settlement of patent litigation, even with the Court's involvement.

THE COURT: They are not enjoying the fruits. You are just being deprived momentarily of the money. You didn't persuade me of your position by just mentioning it.

You filed a rather substantial brief on this subject on which they want to take an appeal. To put it the way you put it doesn't state the problem accurately at all.

They didn't just walk into court. They made a contention with which a district judge disagreed, on which the district judge may be wrong. Do you think you are going to get this appeal dismissed on motion?

MR. GILBRETH: I wouldn't plan to do that, your Honor.

THE COURT: Then it is not a frivolous appeal. It is an appeal.

MR. GILBRETH: Your Honor, there are a few points that I would urge you to take into account before you

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rule on this action. It involves a very brief consideration of the history of this action.

What has happened here is that by proceeding on a show-cause order a few days before a royalty payment was due, they came to your Honor and they said, we have to have this question of whether or not the June 30 royalty payments should be made decided right away. That was an obvious inconvenience for counsel. I was then scheduled to be before two other judges in a consolidated pretrial conference in Virginia as the result of Section 1407 proceedings.

I asked for a very brief adjournment of that. I think it was about three weeks.

My partner, Mr. Kerr, was away from the office, and we thought that it would require both my time and Mr. Kerr's time to oppose their motion.

They had sat on their rights as of that time. The intervening event that they contend for was the delisting of a red food color that was delisted months before they started the action and months before they asked for this show-cause order.

We asked for a brief stay. We appeared before your Honor in chambers. At that time counsel for plaintiffs, Mr. Carr, said that if it was to be adjourned

2 for three weeks, it would have to be adjourned effectively
3 for two months because of scheduling problems that he had.

4 Now, if your Honor had not intervened at that
5 time, they would have either had to have paid the money
6 that they owed us as the clear product of a settlement
7 of litigation, which was authorized, and, we submit, approved,
8 by Judge Connor of this court, or they would be in
9 default of the license agreement, in which case we could
10 pursue the normal remedies. We could even move at that
11 time, your Honor, for specific performance of the license
12 agreement. There is ample authority, and it has been
13 briefed in perhaps tedious detail in our earlier submissions,
14 for the proper position that this Court has inherent power
15 to enforce a settlement agreement.

16 If you don't have them pay these license
17 payments, you not only are not enforcing -- specifically
18 enforcing this court-approved settlement agreement, you
19 are setting up a system that has been the subject of
20 substantial discussion by the Court of Appeals for the
21 Sixth Circuit this year where these people can just walk
22 in and out of the court system. They can tax the resources
23 of this court. They can tax the resources of our client,
24 and then whenever they want to, they can come in with the
25 thought that this will be characterized as a money judgment,

1 and therefore they can argue to a district court like
2 your Honor that you don't have any discretion to not stay
3 this royalty payment because it is a so-called money
4 judgment.
5

6 We think that the law is to the contrary; that
7 this is not a money judgment. I am prepared to argue that
8 point, but if you are getting into the underlying equities
9 of the system or how are we hurt, we are hurt in several
10 ways and it is not just a function of the money, although
11 the money is substantial. The money is substantial not
12 just because of the June 30 royalty payment, but they will
13 obviously use this as a precedent in the Court of Appeals
14 to try to drag out the proceedings in the Court of Appeals
15 and stay all royalty payments up to the March 1, 1977,
16 cutoff date.

17 THE COURT: My precedents don't bind the
18 Court of Appeals.

19 MR. GILBRETH: Your Honor, I am trying to speak
20 in terms of practicalities. I think we both know if your
21 Honor grants a supersedas bond in a situation where you
22 have examined the briefs and you have heard some oral
23 argument and you have reflected on the matter, there is
24 a substantial probability that the Court of Appeals will
25 affirm your decision in that regard. We are trying to come

to you as a court of equity and say, don't let these people do this. They first come at us by show-cause order and although you decided this question -- and I believe more than two weeks ago; I think there is a clear indication in your Honor's remarks on August 11 that you had denied their motion -- they haven't filed a notice of appeal yet.

We submit, your Honor --

THE COURT: Let me ask a minute. How come you haven't filed a notice of appeal?

MR. LEMPEL: We interpret the rules as having to appear before your Honor to request a supersedas bond.

THE COURT: If I grant this, will you file your notice today?

MR. LEMPEL: Yes, sir.

MR. GILBRETH: Your Honor, what we did in our papers was to argue that they were not entitled to pay royalties into escrow. Your Honor didn't reach that question on the merits because your Honor found that the Court lacked jurisdiction over the subject matter of this action.

It is clear from our memoranda that the authorities, the most recent authorities that have focused on this issue after the Supreme Court's decision in Lear, have held that it is within the inherent power of a Court

2 to specifically enforce a reasonable settlement agreement
3 having to do with patent litigation.

4 We cannot go back to Judge Connor at this time,
5 as I understand it, because if we did, Judge Connor, for
6 reasons that would be persuasive to all of us, would
7 disqualify himself. So we have come to you.

8 We can go through, if need be, the paperwork of --
9 instead of just writing the civil action on this piece of
10 paper that is the civil action number of the plaintiff's
11 instituted suit -- of going back and reopening the matter
12 and formally ask for specific performance of the agreement.

13 I interpreted, perhaps wrongly, the ratio
14 decidendi, the reasons for your Honor's decision in part
15 on August 11 that you found that it was reasonable for us
16 to say that after substantial involvement by Judge Connor
17 of this court in an action that had been the subject of
18 very full discovery, and after the approval of a limited
19 term under which the plaintiffs could not terminate their
20 license agreement, that that is reasonable, even after
21 Lear.

22 THE COURT: I don't want to hear much more of
23 this history.

24 It seems to me what your position comes to is
25 that in spite of Lear and in spite of any doubts I may have,

2 if they want to test the validity of license and
3 settlement agreement, the only way the Court should let
4 them do it is by risking the loss of the license they have
5 if they turn out to be wrong. I don't see why they should
6 be put to that risk.

7 If the granting of a supersedas bond
8 diminishes that risk, it makes more sense then I thought
9 when I first looked at it. Why should they be put to such
10 a horrendous risk in order to raise the question that
11 you can fight out with them in an orderly way in court,
12 getting interest on your royalties if and when you prevail?

13 I don't understand why you should attempt to
14 inflict such a penalty under a settlement deal made by
15 this Court.

16 I wouldn't approve a settlement if I thought
17 it had that kind of horrendous consequences down the road.

18 MR. GILBRETH: Your Honor, I have difficulty
19 when you use words like "horrendous consequences."

20 THE COURT: It seems to me they are. Lear says
21 you can test these things.

22 Now you have an intervening settlement thing
23 and I happen to agree with you on its meaning and effect.

24 I happen to have been sitting around here
25 long enough to contemplate from time to time the possibility

that I am in error and you have to contemplate that too, so we have orderly processes of appeal and people aren't supposed to get killed in order to exercise their right of appeal. So we set up supersedas arrangements, and that is all this is about.

MR. GILBRETH: Let me speak directly to that, if I may. There are two points, I think, to consider.

First, if it would be of any value -- and I will not do it now, but I hope you will invite me to do it -- I can review the specific circumstances that resulted in the Sixth Circuit's decision in March of this year in the Arrow case, in which they affirmed a district court's decision to do exactly what I am asking for.

More to the point, if your Honor is concerned -- and I think it is a legitimate concern by any district court and it is certainly a concern that I cannot ignore as counsel for a litigant -- that you may be reversed on appeal, the rules are very explicit on this, your Honor, and they are controlled more by the federal rules of appellate procedure than they are by the rules that have been referred to by these plaintiffs, and the procedure is in the first instance for these people, after they file a notice of appeal typically, to come to your Honor, and if in your discretion you are persuaded that you have somehow made a

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2 mistake on the merits and that you are likely to be
3 reversed, then you should act accordingly. If you are not
4 persuaded on the merits, in other words, if we are not
5 just conjecturing about the possibility that you may be
6 reversed on appeal because there is a judicial controversy
7 here or you somehow misinterpreted the settlement agreements,
8 if you are not persuaded you made a mistake, I would urge
9 your Honor to not authorize this supersedas bond and let's
10 go to the Court of Appeals.

11 THE COURT: Let me just as you: If I reject
12 this application to file a bond, is it or is it not your
13 position that if you prevail you may cancel their license?

14 MR. GILBRETH: No, your Honor.

15 THE COURT: You don't claim you will have a
16 right then to cancel their license?

17 MR. GILBRETH: No, they would have the obligation
18 to pay the moneys --

19 THE COURT: Suppose they don't pay you the
20 moneys. Suppose I don't grant this application to file the
21 supersedas bond and they don't pay you under their view
22 that under Lear they can litigate and withhold payments,
23 and then suppose they are defeated, can you cancel their
24 license?

25 MR. GILBRETH: There are two or three things

that will happen before we would cancel the license.

THE COURT: Can you cancel the license? is what I am asking you, and is that what you are after, or is it not?

MR. GILBRETH: No.

THE COURT: What are you after here?

MR. GILBRETH: What we are after here is to receive the moneys that were to be paid to us in settlement of the litigation before Judge Connor. What we would like is to do it without substantial investment of time and money, either by us or by the Court. We may not get the second part, but what we want is the money.

Now, in terms of the proceedings if the Court denies the stay, which you did before, perhaps not on full reflection, but which I think you clearly did on August 11 when the matter was perhaps fresher in your mind -- you had just read the papers that we submitted, which amply support our proposition -- you denied it then.

If the Court of Appeals, if you deny it again today and if the Court of Appeals denies it, they are under two orders to pay and we would hope they would pay.

If they don't pay, given that determination by this Court twice and by the Court of Appeals once, then

1 we will have to do what we have sought to not do, and that
2 is to take up the time of the Court and ask for specific
3 performance of the settlement agreement that was approved
4 by Judge Connor.
5

6 Now, that action, I think, we should not
7 properly, or we should not just willy-nilly embark upon,
8 because it is going to take our time and take your time.

9 THE COURT: Suppose Judge Connor or somebody
10 orders specific performance --I am not sure why you even
11 ask for that -- then what happens? If they don't pay,
12 you will have them held in contempt? Is that what you are
13 after, a contempt citation?

14 What is that decree of specific performance
15 going to do for you?

16 MR. GILBRETH: If they behave the way citizens
17 of this country --

18 THE COURT: I know it is the bicentennial year.
19 I am trying to find out what underlies this as a practical
20 matter. You get a decree of specific performance and they
21 say, no, we don't think your patent is any good and we are
22 not going to pay, and then what?

23 MR. GILBRETH: I will try to dpeak only in
24 practicalities then.

25 What has happened here --

1
2 THE COURT: Please, what would you then do if
3 they refuse to pay and you got a decree of specific performance?
4 What is it you wish to do? I want you to tell me that as
5 your client's lawyer and as an officer of this court.
6 I want to know what you are after here.

7 MR. GILBRETH: We are after the money.

8 THE COURT: That is all?

9 MR. GILBRETH: That is all.

10 THE COURT: You will get it under the super-
11 sedas bond. I am sorry, I am not going to hear you and
12 I hope you people are not going to come back too regularly
13 with this kind of thing.

14 MR. GILBRETH: Your Honor, I see you writing
15 and I will limit my remarks to the form of their order and
16 other things that may properly be before your Honor, but
17 won't go to the merits of whether or not you should grant
18 their relief, if you will hear me.

19 THE COURT: You have some trouble with the
20 form of the order.

21 MR. GILBRETH: I do.

22 THE COURT: What is the matter with the form?

23 MR. GILBRETH: First, they advocate posting
24 treasury bills and they advocate posting bills only in the
25 amount necessary to secure payment of the June 30 royalty

payments.

 Their theory is that your judgment is a judgment for a sum certain. We disagree with that. We do not believe that it is a judgment for a sum certain.

 It is clear that there will be further royalties payable pursuant to the license agreements. As best as we are able to approximate the amount of those royalties during the period of an appeal, even if the appeal is argued and decided as early as December 30 of this year, will be that the royalties will be in the amount of approximately half a million dollars.

 The way we calculate that, your Honor, is that the royalties paid to us during the first quarter of this year were in the approximate amount of \$170,000. If your order is an attempt to just make us secure so that if we win the appeal we are whole and we receive the moneys that should be paid to us during the pendency of litigation, then we would urge that the judgment should be in the amount of a half a million dollars and that it should be secured by treasury notes rather than treasury bills.

 Those are terms of art and I can explain them if need be.

 THE COURT: No, I don't think I have to bother with any of that. If they don't pay you on September 30,

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2 you can file your suit for specific performance. I haven't
3 absolved them from the obligation to pay you on September 30.
4 I have only stayed the order to pay this money out of escrow
5 now. Isn't that all I am doing?

6 Does your order call for more than that?

7 MR. LEMPEL: No, sir.

8 THE COURT: If you don't pay them on
9 September 30, Gilbreth is going to have you held in contempt
10 or you will pay the money or God knows what will happen,
11 but I may be on vacation then.

12 OK.

13 MR. LEMPEL: Thank you, sir. May I ask the
14 Court's indulgence to formally approve a formal bond?

15 THE COURT: Do you have any problem about the form
16 of the bond otherwise?

17 MR. GILBRETH: None that I haven't articulated.

18 THE COURT: OK.

19 MR. LEMPEL: Thank you, your Honor.

20 MR. GILBRETH: Thank you, your Honor.

21 (Time noted: 10:55 a.m.)

22
23 I (We) hereby certify that the foregoing
24 is a true and accurate transcript to the best
25 of my (our) skill and ability from my (our)
stenographic notes of this proceeding.

Edward B. Veltie

Official Court Reporter
U. S. District Court

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NOTICE OF FILING OF SUPERSEDEAS BONDS

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X
WARNER-JENKINSON COMPANY, :

v. Plaintiff, :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

CIVIL ACTION

NO. 76 Civ. 2744 (MEF)

and
-----X

H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, Intervenor, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :
-----X

FILED
U.S. DISTRICT COURT
S.D. OF N.Y.
Aug. 30 11 39 AM '76

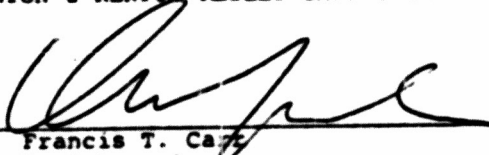
**NOTICE OF FILING OF SUPERSEDEAS BONDS FOR
WARNER-JENKINSON COMPANY AND
H. KOHNSTAMM & COMPANY, INC.**

TO: FISH & NEAVE
William K. Kerr, Esq.
William J. Gilbreth, Esq.
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Telephone: 212-826-1050

PLEASE TAKE NOTICE that plaintiff, Warner-Jenkinson Company and plaintiff-intervenor, H. Kohnstamm & Company, Inc., have filed Supersedeas Bonds (copies of which are attached hereto) with the Clerk of the Southern District of New York.

KENYON & KENYON REILLY CARR & CHAPIN

Dated: August 27, 1976
At: New York, New York


Francis T. Carr
Paul Lempel
Edwin Baranowski
59 Maiden Lane
New York, New York 10038
(212) 425-7200
Attorneys for Plaintiffs
Warner-Jenkinson Company and
H. Kohnstamm & Company, Inc.

A-273

OF COUNSEL:

Donald G. Leavitt, Esq.
Koenig, Senniger, Powers & Leavitt
611 Olive Street
St. Louis, Missouri 63101
(314) 231-0109
Counsel for Warner-Jenkinson Company

Patrick J. Joyce, Esq.
1270 Avenue of the Americas
Suite 2102
New York, New York 10020
(212) 247-5810
Counsel for H. Kohnstamm & Company, Inc.

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

Civil Action No.

76 Civ. 2744 (MEF)

-----x
-and-

SUPERSEDEAS
BOND

-----x
H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, Intervenor :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----x
KNOW YE ALL MEN BY THESE PRESENTS that plaintiff WARNER-JENKINSON COMPANY, a Missouri corporation having a place of business at 2526 Baldwin Street, St. Louis, Missouri, is held and firmly bound unto defendant ALLIED CHEMICAL CORPORATION in the sum of \$121,294.85, for the payment of which, well and truly to be made, it binds itself, its successors and assigns, firmly by these presents.

WHEREAS, on the 13th day of August, 1976, the above named defendant recovered a judgment against WARNER-JENKINSON COMPANY for the sum of \$107,969.71 together with interest thereon at the rate of 6% from June 30, 1976 to August 28, 1976.

AND, the said WARNER-JENKINSON COMPANY feeling aggrieved thereby has or is about to appeal therefrom to the United States Court of Appeals for the Second Circuit.

NOW, THEREFORE, WARNER-JENKINSON COMPANY, does hereby, pursuant to the statute in such case made and provided, undertake that it shall satisfy the aforementioned judgment in full, together with costs, interest and damages for delay, if for any reason the appeal is dismissed or if the judgment is affirmed and that said WARNER-JENKINSON COMPANY shall satisfy in full such modification of the judgment and such costs, interest and damages as the Appellate Court may adjudge and award.

WARNER-JENKINSON COMPANY does hereby deliver to the Clerk, United States District Court for the Southern District of New York, for deposit with said Court and as security for said bond, United States Treasury bills in an amount at least as great as said judgment plus 11% thereof and \$250.00 as security for costs.

August 27, 1976.

WARNER-JENKINSON COMPANY

By *Carl J. [Signature]*

Approved: 8-27-76

Marvin E. Friedman
UNITED STATES DISTRICT JUDGE

Dated: New York, New York
August 27, 1976

-2-

8-27-76
[Handwritten signature]

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UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

-----x
WARNER-JENKINSON COMPANY, :
Plaintiff, :
v. : Civil Action No.
ALLIED CHEMICAL CORPORATION, : 76 Civ. 2744 (MEF)
Defendant. :
-----x

-and-

SUPERSEDEAS
BOND

-----x
H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, Intervenor :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :
-----x

KNOW YE ALL MEN BY THESE PRESENTS that plaintiff
H. KOHNSTAMM & COMPANY, INC., a New York corporation having a
place of business at 161 Avenue of the Americas, New York, New
York, is held and firmly bound unto defendant ALLIED CHEMICAL
CORPORATION in the sum of \$53,582.00, for the payment of which,
well and truly to be made, it binds itself, its successors and
assigns, firmly by these presents.

WHEREAS, on the 13th day of August, 1976, the above
named defendant recovered a judgment against H. KOHNSTAMM & COM-
PANY, INC. for the sum of \$47,571.00 together with interest
thereon at the rate of 6% from June 30, 1976 to August 28, 1976.

AND, the said H. KOHNSTAMM & COMPANY, INC. feeling aggrieved thereby has or is about to appeal therefrom to the United States Court of Appeals for the Second Circuit.

NOW, THEREFORE, H. KOHNSTAMM & COMPANY, INC. does hereby, pursuant to the statute in such case made and provided, undertake that it shall satisfy the aforementioned judgment in full, together with costs, interest and damages for delay, if for any reason the appeal is dismissed or if the judgment is affirmed and that said H. KOHNSTAMM & COMPANY, INC. shall satisfy in full such modification of the judgment and such costs, interest and damages as the Appellate Court may adjudge and award.

H. KOHNSTAMM & COMPANY, INC. does hereby deliver to the Clerk, United States District Court for the Southern District of New York, for deposit with said Court and as security for said bond, United States Treasury bills in an amount at least as great as said judgment plus 11% thereof and \$250.00 as security for costs.

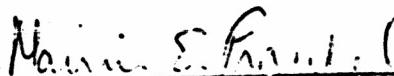
August 27, 1976.

H. KOHNSTAMM & COMPANY, INC.

By



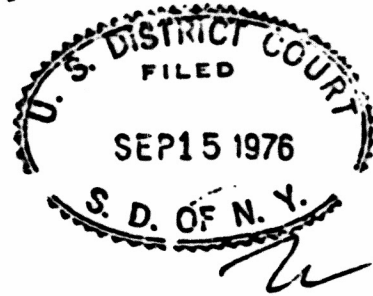
Approved: 8-27-76



UNITED STATES DISTRICT JUDGE

Dated: New York, New York
August 27, 1976

TRANSCRIPT OF AUGUST 11, 1976 HEARING



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2 UNITED STATES DISTRICT COURT

3 SOUTHERN DISTRICT OF NEW YORK

4 -----x
5 WARNER-JENKINSON CO., H. KOHN :
6 STAMM & CO., INC. :

Plaintiff, :

7 -against- :

76 Civ. 2744

8 ALLIED CHEMICAL CORP., :

9 Defendant. :

10 -----x
11 BEFORE:

12 HON. MARVIN E. FRANKEL,

13 District Judge

14 New York, New York

15 August 11, 1976 - 10:45 a.m.

16 APPEARANCES:

17 FRANCIS T. CARR, ESQ.
18 EDWIN BARANOWSKI, ESQ.
19 PAUL LEMPEL, ESQ.
PATRICK JOYCE, ESQ.
Attorneys for Plaintiffs

20 WILLIAM J. GILBRETH, ESQ.
21 WILLIAM K. KERR, ESQ.,
22 HUGH C. BARRETT, ESQ.
J. P. FRIEDENSON, ESQ.
JOHN E. NATHAN, ESQ.
JESSE J. JENNER, ESQ.,
23 Attorneys for Defendant.

MR. CARR: Plaintiff ready.

MR. GILBRETH: Defendant ready.

THE COURT: All right, who is for the motion, that is the motion to dismiss which I think is our main interest, Mr. Gilbreth?

MR. GILBRETH: Yes, sir.

THE COURT: I mostly have been through the papers and what I suggest is that you assume that, to save you going through everything. I will tell you that the point of main interest to me is the question of whether there is a justiceable controversy and whether this should be deemed to be a case where the requisite kind of exposure or threat exists to warrant declaratory relief.

For the guidance of everybody, I will tell you on my first trip through the papers, my disposition is under to believe the answer to that question [and] the peculiar circumstances of this case should be [null]. no

I am inclined to think at this time that the complaint will have to be [had been] dismissed for that reason. But, I will do some more thinking and some listening.

In that connection, Mr. Gilbreth, and you would know me long enough, not to count on my preliminary disposition. I just give it to you for your guidance. I think I know that you don't say anything about what I

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2 recall as the rule or the principle that declaratory relief
3 is subject to equitable principles. Is there such a
4 principle? And if so, does it have application here in
5 the setting of that settlement agreement made with Judge
6 Conner?

7 MR. GILBRETH: Your Honor, the answer to your
8 question is that I believe equitable principles do
9 play a role with respect to declaratory judgment actions,
10 but they do not play the role, as I understand it, that
11 I believe you are suggesting. The role that they play is
12 that in order for the Court to have jurisdiction over a
13 declaratory judgment action, there must be both an actual --
14 and that is to say a justiceable controversy -- and
15 there must be otherwise federal question or diversity
16 jurisdiction.

17 However, there is an equitable principle that
18 is found in some authorities for the proposition that even
19 if the court satisfies itself that those two conditions
20 precedent are met, it can, as a court of equity, decline
21 to entertain the declaratory judgment action.

22 If based on equitable considerations, it believes
23 it should not entertain the action.

24 There is limited authority for that proposition.

25 THE COURT: You don't ^{invoke} [invole] that authority.

MR. GILBRETH: We don't reach that question, your Honor. As a matter of fact, we researched those authorities and found that we didn't need them because of the particular circumstances of this case where we say they don't meet the conditions precedent. In particular and if your Honor wishes me to speak only to the question of justiceable controversy or actual controversy I am prepared to do that.

It seems clear to us that the persuasive authorities and the authorities of this Court are uniform for the proposition that a patent licensee cannot bring a declaratory judgment action against a patent licensor because there is no justiceable controversy with respect to the validity of the licensed [license] [of] patents.

Just briefly stated, that proposition is found in the Thikol decision.

THE COURT: I know those cases but the cases are in conflict on that subject. Isn't that fair to say?

MR. GILBRETH: I think they are not. That would require about a five or ten minute argument and I am prepared to launch into that.

THE COURT: No. I would just as soon read the cases and see whether I come out that way.

MR. GILBRETH: If I may explain just then in a sentence or two why they are not in conflict in our view.

There is authority for the proposition that if a licensee comes out with a new and different product or process, such that, the licensor can properly charge that activity to be unlicensed activity, then there can be a case or controversy and courts, not the Southern District of New York to my knowledge and not the Second Circuit Court of Appeals to my knowledge, have found that that can present a case ^{or} [of] controversy. That is not our situation.

We don't find that to be a conflict. We find that to be clearly distinguishable from our situation where the plaintiff ^{licensees} [licensors] were making a specific product and it has to be specific because of Food and Drug Act regulations and that product is called "Red 40."

It is a food color. That is the same product that is now before this Court. There is no new product.

THE COURT: How did the Lear case arise?

MR. GILBRETH: The Lear case didn't raise this judisdictional [judicial] issue at all. That was a case that arose as a state court proceeding. It bounced in and out of federal court.

THE COURT: How did it arise in the state?

MR. GILBRETH: As I recall, that was an action for money in the state arising out of, in effect, the

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2 license agreement.

3 THE COURT: The licensor's action? Is that
4 agreed by the plaintiffs?

5 MR. CARR: Yes, your Honor.

6 THE COURT: Lear does not reach the subject that
7 we are talking about?

8 THE COURT
9 [MR. GILBRETH]: Now, prior to your settlement
10 agreement, it is pretty clear you did have threats, is that
11 right?

12 MR. GILBRETH: Yes, sir.

13 THE COURT: You would have sued if there hadn't
14 been a declaratory judgment action by these plaintiffs
15 against you?

16 MR. GILBRETH: I believe that is correct.

17 THE COURT: Now, those threats are a matter of
18 history. They haven't disappeared but in a sense you
19 are saying they are cut off by the settlement agreement.

20 MR. GILBRETH: There is clear authority for
21 that proposition and it is recited in our memorandum.
22 We anticipated that the Court might be concerned about
23 that point or that the other side might raise it. So in
24 anticipation of that, we cite authority that is directly
25 in point for the proposition that in the context of a
factual situation like ours, those preexisting threats or

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preexisting reasonable apprehension of suit are something that can be completely ignored by the Court in assessing whether or not there is now a justiciable controversy before this Court now that there is a licensing agreement and the licensing agreement as of the time of suit had never been terminated, there had been no threats of termination, there had been no threats of suit by Allied Chemical.

As a matter of fact, the royalty payments as your Honor may recall, weren't even due as of the time suit was instituted and the agreements couldn't be terminated by Allied or by the licensees [licensors] for two years.

THE COURT: Well, as I understand it, unless there is a breach of the license agreement, your client can't terminate the license agreements at all for the patents life of the [patent], is that correct or incorrect?

MR. GILBRETH: That is correct. As you said, [You said it.] Unless there is a breach or default.

THE COURT: Unless there is a claim of default.

MR. GILBRETH: That is correct.

THE COURT: In that sense the plaintiffs here under your settlement deal have the control of the termination situation short of the lives of the patent pretty much in their hands. That is to say, they can at any time after two years give you 60 days notice?

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2 MR. GILBRETH: That is correct.

3 THE COURT: Now, I was wondering about that for
4 this reason:

5 It is perfectly clear on the history of the
6 case, I think, that if they terminate, you will sue them
7 as infringers if they keep producing the dye, isn't that
8 fair?

9 MR. GILBRETH: I think that is fair. I hesitate
10 to get into those things without a client, but I think
11 that is fair for purposes of this argument.

12 THE COURT: As a matter of the papers before
13 the Court that you submitted, isn't it?

14 MR. GILBRETH: I doubt that Allied Chemical would
15 countenance [count it as] a complete violation of its recently licensed
16 by [relieved]
17 patent properties [of] these two corporations.

18 THE COURT: I think, it seems to me, in fairness
19 [of] an indefinite postponement of their right to sue because
20 you haven't made an explicit threat won't be acceptable.

21 On the other hand, it seems to me that they are
22 in the position in two years from March of '75 or whenever
23 those agreements were made to give you notice of termination
24 and sue you simultaneously.

25 MR. GILBRETH: Your Honor, I think the question --

THE COURT: You don't have to say yes but it does

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2 seem to me that that is their position.

3 If I were to dismiss them now, it won't cut off
4 forever their right to sue but would simply hold them
5 to the minimum term of the agreement hammered out with Judge
6 Conner.

7 MR. GILBRETH: I think there are two policies
8 that we would like to have you consider when you assess
9 that question. It seems to be a question of fairness as
10 you have indicated. First, our papers, I think, are ade-
11 quate for the authority which we contend support our
12 proposition. There, after all, was a settlement of the
13 earlier litigation. It was with some involvement by Judge
14 Conner of this court. If you let these people walk back
15 into court whenever they contend changed circumstances,
16 then all of the policies --

17 THE COURT: That is not what I am talking about.
18 I am saying, if I rule for you today, that does not mean
19 that they are forever barred. It means they must at least
20 adhere to the two-year minimum term.

21 MR. GILBRETH: I misapprehended your question.

22 THE COURT: The end which is actually not that
23 far off but it does not make a difference anyhow.

24 MR. GILBRETH: I believe your Honor is correct.

25 A holding by your Honor [for] dismissing [of] this case

for lack of actual controversy would not preclude the plaintiffs from terminating the contract when a two-year period is up and then thereby perhaps posing an actual controversy. I would suggest there is a real question as to whether or not they will do that based upon the way they plead and the way they write their memorandum. They seem to be as acutely aware as Allied Chemical is of the enormous umbrella that is provided them by the license agreement of a freedom from any fear of injunction.

In other words, they can have the fruits of the license agreement and I am not sure that they would terminate. There has been no --

THE COURT: I am not asking whether they would. That would be up to them.

MR. GILBRETH: Exactly.

THE COURT: The only question is whether they could. You are disposed to agree that they could.

MR. GILBRETH: I am, your Honor.

THE COURT: Well, being at the moment ahead and maybe for the rest of the day or maybe for good, Mr. Gilbreth, you may have other things you want to submit now or you may want to let me hear from the plaintiffs in opposition. I leave that to you.

MR. GILBRETH: Your Honor, I am prepared to submit

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our motion to dismiss for lack of subject matter jurisdiction on our papers unless the Court has further questions of us after hearing from Mr. Carr.

THE COURT: All right. Let me hear. Mr. Carr is going to speak for the plaintiffs.

MR. CARR: Yes, sir.

Do I take it correctly, your Honor, that the other grounds set forth in our papers for jurisdiction, you don't believe that they are sufficiently substantial to support jurisdiction?

THE COURT: That is the way it seems to me. I will hear you on that. Let me put to you the question. Because I may actually issue an oral order this morning depending on what I hear from you.

The question is, if I find on the theories that have been briefed by Mr. Gilbreth with your opposition, that there is not the requisite case or controversy because the settlement agreement at least for the two years of its term cuts off any reality in these threats that once were made, if I find that, I believe that none of your alternative grounds for jurisdiction would revive your case. But, if you think I am wrong in that, I want you to advise me of that fact.

For example, I don't think it makes any

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2 difference whether there is diversity jurisdiction or
3 not if there is not an actual case of controversy which
4 cuts across all the jurisdictional provisions, as I
5 understand it.

6 MR. CARR: We have taken and continue to take
7 the position, your Honor, that this is a case arising out
8 of the patent laws, uniquely for this particular court,
9 the federal court.

10 THE COURT: I know you take that position. But
11 you have to show a case of controversy. For example,
12 I can show a case under the patent laws tomorrow against
13 you as to whether the patent on the zipper is a good
14 patent. That would be a kind of patent case and it would
15 arise under the patent laws except there is no case controversy

16 MR. CARR: It is our position that the controversy
17 arises out of several factors. One, our challenge of the
18 validity of the patent, there are two patents in the suit.
19 We believe that that challenge is directly sanctioned
20 by Lear and the cases that follow it.

21 It is your position, as I understand it, that the
22 agreement must be terminated before we can get into court
23 with any controversy.

24 THE COURT: In the particular circumstances
25 of this case and I think the definition of a case or contro-

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versy must be applied with particular reference to the specific facts of the case.

Now, you had a case, you have had threats, it was justiceable, you brought it. You occupied the time of the court and the energies of your adversaries and you went through and after great travail you hammered out a very limited settlement agreement which bound you for not more than two years and left within your control when you could get out from under that license provision. There had been no other threats since then. You just turn around and you decide that the price is too high, the price that you agreed to, a kind of assertion that has not the slightest appeal to a court of law because all our contract business arises because somebody decides he didn't make as provident a contract as he would like.

You say that makes of this settled proceeding a new case or controversy before the two years are up. My strong disposition is to say it does not. I have put it to you. If there isn't any additional threat on any additional ground of justiceability, does it matter whether I look at the diversity or the ^{arising} [arriving] under, isn't the case over? Or the proceeding over?

MR. CARR: Your Honor, reasonable apprehension is what I believe is required. Reasonable apprehension

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2 that the plaintiff will be sued. Not a threat, but
3 reasonable apprehension.

4 THE COURT: You are not going to be sued for two
5 years. You don't have any basis whatever in your complaint
6 or in any of your papers for that apprehension, unless
7 it is open to you having made that settlement to just put
8 aside the agreement before the very modest term to which
9 you agreed and start all over again.

10 MR. CARR: But your Honor's ruling about
11 to be, I gather, is that we must terminate first. This
12 is the Thikol reason.

13 THE COURT: Yes, it seems to me specially
14 where you have been so much of a burden on the resources
15 of the court and your adversary and you make so limited an
16 arrangement for peace which quells your apprehension for
17 two years. You have no apprehension whatever. Whenever
18 you are going to have any apprehension it will be because
19 you do something that is within your control.

20 Now, viewing all those circumstances, I say, you
21 ought not to be allowed to say that is all it mellowed,
22 that settlement arrangement. We are now going back to the
23 apprehension that we choose to have because we choose to
24 throw over this agreement and now we want to start the suit
25 again.

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It seems to me to be so grossly unfair that you should not be allowed to revive those ancient threats as a basis for seeking a declaration of your rights under the patents.

MR. CARR: It is our position that the Thikol case should not be followed, that it is not good law under the circumstances of this case.

We have briefed this very extensively. There are quite a number of cases decided under Lear since Thikol which have considered Thikol and have not applied Thikol because they say that in the public interest if there is a patent which is a burden on the public and surely this may be a proper burden or improper burden, but a burden it is, there it is.

By reason of the action of the Food and Drug and the Patent Office, this turns out to be the only red food color that anyone could practically use in the entire country. It is not the limited monopoly of the sort we see in the patent system. It is an absolute monopoly, without question.

If it is a burden, Lear says that one who is aggrieved by this, who has an interest in this and these plaintiffs have a vital interest in it, have the right to challenge the validity of those patents and remove

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2 the burden from the public. This is of paramount interest.

3 What you are saying before we can do this, we
4 must terminate the agreement. I say to you that the law
5 is that we do not have to terminate the agreement. We
6 at the present time do not desire --

7 THE COURT: Even where the agreement was made
8 explicitly to postpone your right to continue a
9 lawsuit that had already gone to trial in this court.

10 MR. CARR: I understand that.

11 THE COURT: Do you know any case that allows you
12 to kick over an agreement like that in such circumstances
13 where you can say, well, it is true we agreed to make peace
14 for two years so that at least for that time nobody would
15 have any apprehension but we decide now we are apprehensive
16 or we want to be apprehensive and therefore it is justiceable
17 all over, something that you could have done a week
18 after Judge Conner recovered from the stress of dealing
19 with all of you.

20 MR. CARR: There was no necessity of course to
21 take it.

22 THE COURT: If the Food and Drug acted a week
23 later, you say you could have been back a week later,
24 even though you knew at the time about the prospect of
25 the Food and Drug Administration because the subject

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2 was already in the works.

3 MR. CARR: Your Honor, the subject had been in
4 the works for five or six years. One could draw a con-
5 clusion one way or the other. At the time of the settlement,
6 it looked pretty good for "Red 2". It wouldn't have been
7 any sweat at all to put in the agreement if that was fairly
8 contemplated, if "Red 2" goes down the drain, this agreement
9 may be set aside.

10 THE COURT:

11 MR. CARR: There

12 [there] is only one thing in the agreement or settlement
13 papers that speaks of that, not expressly. It says the
14 dismissal shall be without prejudice. That language
15 didn't get in there by accident.

16 THE COURT: You mean to say that covered the "Red
17 2" situation?

18 MR. CARR: It covered any situation in which we
19 wanted to reinstitute validity of that patent.

20 THE COURT: Next March if you want to terminate,
21 your settlement is without prejudice to your right to
22 attack [to] one or both of these patents or their right
23 to an attempt to enforce them.

24 I don't think there is any other fair reading
25 than that.

MR. CARR: Your Honor, the agreement talks of

1 termination. It does not talk about litigation or
2 the right to test validity. It talks only about
3 termination. That means we have an obligation for two
4 years to pay royalties. That is what it means.
5

6 THE COURT: When you say the agreement, you mean
7 the license agreement.

8 MR. CARR: Yes, sir.

9 THE COURT: Well, all right. I am talking about
10 the stipulation and order. All of these things have to
11 be read together, don't they? It is the stipulation and
12 order that has the without prejudice in there.

13 MR. CARR: Yes, sir.

14 THE COURT: You are not suggesting that Judge
15 Conner was unaware of the whole package of settlement
16 documents when he signed that?

17 MR. CARR: I would hardly --

18 THE COURT: He was very much aware of it.

19 MR. CARR: I am certain of that.

20 THE COURT: He had all of that in mind. It is
21 in light of that that he signed his name, being, I suppose,
22 it is permissible to say that a judicial officer on this
23 court most familiar with these things at the moment and
24 very familiar as you know.

25 Well, I don't know if you have been permitted in

our back and forth conversation, Mr. Carr, to answer fully my question. If I find there is no case of controversy, is there any reason in your view why I have to go through your analysis of the diversity question, for example, what good would that do?

Suppose I found that you are within the diversity statute based on the citizenship of the parties, you would still be dismissed for lack of the case of controversy if I held there was none, isn't that so?

MR. CARR: No, I can't agree with that, your Honor. We may be breaking ground here. But, I believe, that the plaintiffs have a cause of action independent of the declaratory judgment statute. By reason of the issuance of an invalid patent to the detriment of the plaintiffs. Plaintiffs have the right to get into the court, a federal court and correct that wrong which they are now suffering, regardless of whether they have entered new prior agreements or termination of agreements or what have you.

We have a right to do that. I think Lear gives us the right to do that. I think other courts agree we have the right to do that.

THE COURT: I don't know what the diversity statute adds to that thought. If you are right, it would arise

under the patent laws, presumably.

MR. CARR: Yes.

THE COURT: I asked you whether the diversity question needs to be contronted. I gather your answer is no? If I find there is no case of controversy.

MR. CARR: No, I can't agree with that. We have set up three or four different grounds for staying in this court. I submit to you that the case of controversy isn't required where we are proceeding to attack the validity of the patent, it is an action arising under the patent laws. We don't have to have a controversy relating to it. There is an inherent controversy in it. Most assuredly Allied would never agree that their patents are invalid. The assertion agrees with the controversy.

But I submit to you, that the action proceeding directly with diversity patent derives from the patent laws of the federal courts of the United States and the court should hear this case under these grounds.

THE COURT: I am sorry, I don't follow you or if I do, I don't agree with you.

All right, I think I am going to dismiss this on my understanding that if you choose to, you can bring it on around next March or thereabouts and it seems to me that the fair and sensible thing in the middle of August

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2 is just to dismiss it. The broeefs are thorough and
3 compendious and the investment of money and labor is sufficient
4 so that parties may want to appeal. I don't know that
5 I have a great deal to add to what is in the briefs and
6 what has transpired in these conversations. I believe,
7 therefore, that I will direct counsel now to settle an order
8 granting the defendant's motion to dismiss and denying,
9 obviously, the plaintiffs' application to have the Court
10 declare that the royalty payments may be placed in escrow
11 as sufficient performance, as I understand it, of the
12 plaintiffs' obligation or obligations under the licensing
13 agreements.

14 I think you are to settle that order as quickly
15 as possible, Mr. Gilbreth, since you have failed to lose
16 this time, perhaps you ought to serve a form of order today
17 and counterorder may be submitted to him, if one is needed,
18 or perhaps you can just get together and agree on a simple
19 form of order and I will sign that so that you can go on
20 from there.

21 MR. GILBRETH: Your Honor, in an effort to
22 avoid any future controversy, I remind you that you entered
23 an order on June 30th that said that if defendant
24 prevails in opposition to the relief sought by plaintiffs,
25 plaintiffs will pay said royalties due June 30, 1976 and

1 said interests. I would suggest it would be reasonable
2 to include in this proposed order that ^{the} thus far withheld
3 royalty payment be paid within 15 days of the entry of
4 the order unless Mr. Carr has an objection to that.
5

6 MR. CARR: I was about to ask your Honor if we
7 could have a stay of the order relating to payment because
8 I anticipate that one or both of plaintiffs will appeal.
9 We would then seek a stay from the Court of Appeals
10 on the same basis in order that we don't exchange monies
11 while this question is before the Court.

12 THE COURT: I don't see any harm in your exchanging
13 monies while the Court does its monetarial work. I don't
14 see any reason for granting you any further postponement
15 of the obligation to pay royalties. I am aware of Lear
16 and I am aware of the other pertinent things that we have
17 talked about. But in my understanding of this matter, as
18 Mr. Gilbreth reminds me, was embodied in the order
19 heretofore made.

20 It seemed fair to me then and it seems fair to
21 me now subject to the wisdom of the Court of Appeals
22 that the royalties that have accrued should be paid and
23 I will not grant a stay.

24 So, the answer to your question, Mr. Gilbreth,
25 is yes. Such a provision be added to the order to be

settled on these motions. Is there anything else, gentlemen?

MR. GILBRETH: Not from me, your Honor.

MR. CARR: Just for the sake of the record, your Honor, because this question will probably come up between the parties later, the matter I am about to note: You referred to the two-year bar against termination and indeed there is a provision of that in the license agreement. However, there is a most favored nations clause in that agreement. When defendant's papers were filed on us in this matter, fairly recently, appended to this was a more recent license agreement with the Hilton Davis Company which has a different termination provision than we have --

THE COURT: Tell me about that.

MR. CARR: In all probability --

THE COURT: What is that different provision [decision]?

MR. CARR: They have a one-year termination provision. The arrangement they made apparently was that the right to terminate would expire at the same time and it is our right, the plaintiffs here right to terminate.

However, if they were given one year and we got the benefit of a one-year termination clause, obviously we would now have the right to terminate.

THE COURT: On the principle of renvoi, so would they and, if we kept that up, you would all get

the right to terminate before any of us were born.

MR. CARR: They don't get the right to terminate.

THE COURT: I will not give you a construction on that question beyond the off-the-cuff response that I just wouldn't suggested. I [would] be inclined on the basis of what you just said to read it the way you read it, but I think that is a question to be decided some other day.

If you are asking me to state explicitly that I have not today foreclosed any debate about the permissible time of termination, I will grant that request and say that I have not foreclosed that question.

MR. CARR: Your Honor, I was not asking --

THE COURT: I don't mean to foreclose it.

MR. CARR: I was not asking your Honor for anything, since I am going to make this a point later on with my opponent, I didn't want to stand silent here knowing what I know. We have a record and I thought we should put it on the record.

THE COURT: I agree with you, that nothing I have said should impair your making that point which I really hadn't addressed and meant to address this morning.

Anything else, gentlemen?

MR. GILBRETH: On the theory that silence is not acceptance to Mr. Carr's remarks, we have nothing further.

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jprf

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THE COURT: You have a lawyer's construction of
the notion of silence but I heard you.

Thank you, gentlemen.

(Adjourned.)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

(For referral to Judge
Frankel after docketing.)

----- x
WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

----- x
H. KOHNSTAMM & COMPANY, INC. :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :
----- x



CIVIL ACTION NO.

76 Civ. 2744 (MEF)

STIPULATION AND ORDER, PURSUANT TO
RULE 10(e), F.R.A.P., REGARDING
TRANSCRIPT CORRECTIONS

WHEREAS, certain stenographic errors appear in the
Transcript of the Hearing in this action held on August 11,
1976 before the Honorable Marvin E. Frankel, and

WHEREAS, the parties wish to correct such errors
before the Transcript becomes part of the record on appeal
in this action;

The parties hereby STIPULATE AND AGREE, subject to
the Court's approval, that:

The clerk or other appropriate person shall enter
into the files of this action and physically correct as follows
the stenographic errors which appear in the Transcript of the
Hearing in this action held on August 11, 1976 before the
Honorable Marvin E. Frankel:

MICROFILM

SEP 20 1976

*Butler
to arrange
for
physical
correction -
MEF*

23

A-304

Page 2, line 17 Delete "and" and insert therefor
--under--.

Page 2, line 18 Delete "null" and insert therefor
--no--.

Page 2, line 20 Delete "had been" and insert therefor
--will have to be--.

Page 3, line 25 Delete "invole" and insert therefor
--invoke--.

Page 4, line 14 Delete "license" and insert therefor
--licensed--.

Page 4, line 14 Delete second "of".

Page 5, line 9 Delete "of" and insert therefor
--or--.

Page 5, line 9 Delete "oontroversy" and insert therefor
--controversy--.

Page 5, line 13 Delete "licensors" and insert therefor
--licensees--.

Page 5, line 20 Delete "judicial" and insert therefor
--jurisdictional--.

Page 6, line 8 Delete "MR. GILBRETH" and insert therefor
--THE COURT--.

Page 7, line 12 Delete "licensors" and insert therefor
--licensees--.

Page 7, line 16 Delete "patent" and insert therefor
--patents--.

Page 7, line 17 Delete "You said it" and insert therefor
--As you said,--.

Page 8, line 15 Delete "count it as" and insert therefor
--countenance--.

Page 8, line 15 Delete "relieved" and insert therefor
--licensed--.

Page 8, line 16 Delete "of" and insert therefor --by--.

Page 8, line 16 Delete first "of".

Page 9, line 25 Delete "for".

Page 9 line 25 Delete "of".

Page 13, line 22 Delete "arriving" and insert therefor
--arising--.

Page 17, line 19 Before "Not", insert --THE COURT:--.

Page 17, line 11 Delete "there" and insert therefor
--MR. CARR: There--.

Page 17, line 21 Delete "to".

Page 22, line 3 After "that" insert --the--.

Page 23, line 17 Delete "decision" and insert therefor
--provision--.

Page 24, line 6 Delete "would" and insert therefor
--wouldn't--.

FISH & NEAVE

September 16, 1976

By *William J. Gilbreth* ^{HES}
Attorneys for defendant
277 Park Avenue
New York, New York 10017
(212) 826-1050

KENYON & KENYON REILLY CARR & CHAPIN

September 16, 1976

By *[Signature]*
Attorneys for plaintiffs
59 Maiden Lane
New York, New York 10038
(212) 425-7200

SO ORDERED:

September 17, 1976

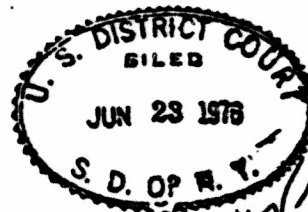
Morris E. Frankel
U.S.D.J.

A-306

ORDER TO SHOW CAUSE

MEMO. ENDORSED—

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



-----X

WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----X

-and-

-----X

H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, Intervenor, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----X

TO: ALLIED CHEMICAL CORPORATION

ORDER TO SHOW CAUSE [Rules 7(b) and 16(5), F.R.C.P.]

22, 1976, UPON THE ANNEXED AFFIDAVIT OF PAUL LEMPEL, SWORN TO ON JUNE
AND SUPPORTING EXHIBITS, IT IS HEREBY ORDERED, THAT

Defendant, Allied Chemical Corporation, is hereby ordered

to show cause at a hearing to be held before this Court at 9:15

A.M., on Friday, June 25, 1976 before the Honorable MARVIN E. FRANKEL,

U.S.D.J., United States Courthouse, Foley Square, New York, New

York IN ROOM 2704 as to why this Court should not order, in accordance with

the form of order annexed hereto as "Exhibit I", that, during the
pendency of this action, plaintiffs should deposit in escrow the
royalties under license agreements between the plaintiffs and
defendant.

This Order To Show Cause must be personally served on defendant by

24

A-307

uN1 ✓ 5:30 AM on Tuesday, June 22, 1976. Plaintiffs' briefs
and affidavits in support of the relief sought must be served and
uN1 ✓ filed by 2 PM, Wednesday, June 23, 1976. Defendant's
briefs and affidavits in opposition to the relief sought must be
uN1 ✓ served and filed by 5 PM, Thurs 4, June 24, 1976.

*IF Defendant has an objection to the
return date specified herein, it shall
uN1 make application on notice to Judge Weinstein's
Chambers by 5 PM on June 23rd 1976*

[Signature]
UNITED STATES DISTRICT JUDGE

(MNTI)

RG

At: New York, New York

Dated: June 22, 1976.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

-----X
WARNER-JENKINSON COMPANY, :
Plaintiff, :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :

-----X
-and-
-----X

Civil Action
No. _____

-----X
H. KOHNSTAMM & COMPANY, INC., :
Plaintiff, :
Intervenor, :
v. :
ALLIED CHEMICAL CORPORATION, :
Defendant. :

ORDER

Good cause having been shown, and this Court having considered the evidence and arguments of the parties, it is hereby ordered that:

- 1.) This Court approves the Escrow Agreements appended hereto as Exhibits A and B.
- 2.) During the pendency of this action, Warner-Jenkinson Company and H. Kohnstamm & Company, Inc. shall deposit royalties under their respective License Agreements with Allied Chemical Corporation, dated as of March 1, 1975, for U.S. Patent Nos. 3,519,617 and 3,640,733, in escrow, in accordance with the Escrow Agreements annexed hereto.

"EXHIBIT I"

3.) During the pendency of this action, such deposits in escrow shall be in full performance of plaintiffs' royalty obligations under the said License Agreements.

SO ORDERED:

UNITED STATES DISTRICT JUDGE

At: New York, New York

Dated: June , 1976.

June 22, 1976

Bankers Trust Company
Custodian Division
6th Floor
16 Wall Street
New York, New York 10005

Attention: Mr. Everett Souther

Gentlemen:

In accordance with the provisions of this Agreement, Warner-Jenkinson Company, 2526 Baldwin Street, St. Louis, Missouri, 63106 (herein called "the Depositor") will deliver to you quarterly and within thirty days of the last day of each of the months of May, August, November and February, beginning with May, 1976, and continuing thereafter until delivery is ordered as is set forth below, certain sums of money, herein called "the Fund", which are royalties under a License Agreement dated as of March 1, 1975 between the Depositor and Allied Chemical Corporation, Specialty Chemicals Division, P. O. Box 1057R, Morristown, New Jersey, 07960 (herein called "the Second Party"). You agree to hold the Fund, as Escrow Agent, IN ESCROW upon the following terms:

1. The Fund or any portion or pro-rata share thereof, as may be determined by the non-appealable order (as confirmed by certificate of the clerk of the court issuing such order) of a court of competent jurisdiction, shall be delivered to the Second Party or to the Depositor, as any such court shall direct in connection with the litigation, Warner-Jenkinson Company v. Allied Chemical Corporation.

2. Moneys held in the Fund shall be conserved by you and invested in United States government securities with 90 day maturities.

You shall acknowledge in writing to the Depositor and the Second Party each deposit made by Depositor to the Fund and shall periodically provide to Depositor and the Second Party a report of cumulative deposits made and interest earned thereon.

3. All interest and other earnings and profits of the Fund shall constitute part of the Fund.

EXHIBIT "A"

A-311

4. The Depositor agrees with you as follows:

a) You shall not be bound in any way by any agreement or contract between the Depositor and the Second Party (whether or not you have knowledge thereof), and your only duties and responsibilities shall be to hold the Fund and to invest and dispose of it in accordance with terms of this Agreement.

b) As Escrow Agent hereunder, you shall have no duties or responsibilities except those expressly set forth herein. You may consult with counsel and shall be fully protected with respect to any action taken or omitted by you in good faith on advice of counsel and you shall have no liability hereunder except for your negligence. You shall have no responsibility as to the validity or value of the Escrow Property and you may rely on any certificate, statement, request, consent, agreement or other instrument which you believe to be genuine and to have been signed or presented by a proper person or persons.

c) This Agreement may not be altered or amended except as specified in a certified Order of the United States District Court for the Southern District of New York and upon your prior written consent. Should an attempt be made to change this Agreement in a manner which, in your sole discretion, you deem undesirable, you may resign as Escrow Agent by notifying the Depositor, Second Party and Court in writing and, until a successor Escrow Agent shall be appointed and shall accept such appointment, your only duty shall be to hold, invest and dispose of the Fund in accordance with the original provisions contained in this Agreement.

d) All notices required to be given hereunder shall be in writing and shall be effective when delivered by messenger, or by certified registered mail, cable or telex, to the respective party at its address specified below, namely:

Warner-Jenkinson Company
2526 Baldwin Street
St. Louis, Missouri 63106
Attention: Comptroller

Allied Chemical Corporation
Specialty Chemicals Division
P. O. Box 1057R
Morristown, New Jersey 07960
Attention: Comptroller

United States District Court
for the Southern District of
New York
United States Courthouse
Foley Square
New York, New York
Attention: Honorable _____
Re: 76 Civ. _____

or such other address as the Depositor or such other parties may have furnished to you and to the other parties in writing. Any notice to you shall be effective when received at your address above.

e) Your fees as Escrow Agent shall be \$300 per year.

f) The undersigned shall reimburse you for all expenses (including New York and Federal taxes and other governmental charges) incurred by you in connection with your duties hereunder and shall indemnify you and save you harmless against any and all liabilities, costs, and expenses, including counsel fees, for anything done or omitted by you in the performance of this Agreement, except as a result of your own negligence or bad faith.

5. This Agreement shall be construed in accordance with and governed by the law of the State of New York and shall be binding upon you and the Depositor and your and its respective successors and assigns; provided that any assignment or

transfer by the Depositor or Second Party of its rights under this Agreement or with respect to the Fund shall be void as against you unless (i) written notice thereof shall be given to you, (ii) the assignee or transferee shall agree in writing to be bound by the provisions of the Agreement, and (iii) you and the other Party shall have consented to such assignment or transfer.

If the foregoing Agreement is satisfactory to you, please so indicate by signing at the place provided below.

Agreed to by WARNER-JENKINSON COMPANY

By: LS/ _____
NAME, TITLE

Agreed to by BANKERS TRUST COMPANY

By: _____ Dated: _____
NAME, TITLE

June 22, 1976

Bankers Trust Company
Custodian Division
6th Floor
16 Wall Street
New York, New York 10005

Attention: Mr. Everett Souther

Gentlemen:

In accordance with the provisions of this Agreement, H. Kohnstamm & Company, Inc., 16 Avenue of the Americas, New York, New York 10013 (herein called "the Depositor") will deliver to you quarterly and within thirty days of the last day of each of the months of May, August, November and February, beginning with May, 1976, and continuing thereafter until delivery is ordered as is set forth below, certain sums of money, herein called "the Fund", which are royalties under a License Agreement dated as of March 1, 1975 between the Depositor and Allied Chemical Corporation, Specialty Chemicals Division, P.O. Box 1057R, Morristown, New Jersey, 07960 (herein called "the Second Party"). You agree to hold the Fund, as Escrow Agent, IN ESCROW upon the following terms:

1. The Fund or any portion or pro-rata share thereof, as may be determined by the non-appealable order (as confirmed by certificate of the clerk of the court issuing such order) of a court of competent jurisdiction, shall be delivered to the Second Party or to the Depositor, as any such court shall direct in connection with the litigation, H. Kohnstamm & Company, Inc. v. Allied Chemical Corporation.

2. Moneys held in the Fund shall be conserved by you and invested in United States government securities with 90 day maturities.

You shall acknowledge in writing to the Depositor and the Second Party each deposit made by Depositor to the Fund and shall periodically provide to Depositor and the Second Party a report of cumulative deposits made and interest earned thereon.

3. All interest and other earnings and profits of the Fund shall constitute part of the Fund.

EXHIBIT "B"

4. The Depositor agrees with you as follows:

a) You shall not be bound in any way by any agreement or contract between the Depositor and the Second Party (whether or not you have knowledge thereof), and your only duties and responsibilities shall be to hold the Fund and to invest and dispose of it in accordance with terms of this Agreement.

b) As Escrow Agent hereunder, you shall have no duties or responsibilities except those expressly set forth herein. You may consult with counsel and shall be fully protected with respect to any action taken or omitted by you in good faith on advice of counsel and you shall have no liability hereunder except for your negligence. You shall have no responsibility as to the validity or value of the Escrow Property and you may rely on any certificate, statement, request, consent, agreement or other instrument which you believe to be genuine and to have been signed or presented by a proper person or persons.

c) This Agreement may not be altered or amended except as specified in a certified Order of the United States District Court for the Southern District of New York and upon your prior written consent. Should an attempt be made to change this Agreement in a manner which, in your sole discretion, you deem undesirable, you may resign as Escrow Agent by notifying the Depositor, Second Party and Court in writing and, until a successor Escrow Agent shall be appointed and shall accept such appointment, your only duty shall be to hold, invest and dispose of the Fund in accordance with the original provisions contained in this Agreement.

d) All notices required to be given hereunder shall be in writing and shall be effective when delivered by messenger, or by certified registered mail, cable or telex, to the respective party at its address specified below, namely:

H. Kohnstamm & Company, Inc.
161 Avenue of the Americas
New York, New York 10013
Attention: Comptroller

Allied Chemical Corporation
Specialty Chemicals Division
P. O. Box 1057R
Morristown, New Jersey 07960
Attention: Comptroller

United States District Court
for the Southern District of
New York
United States Courthouse
Foley Square
New York, New York
Attention: Honorable _____
Re: 76 Civ. _____

or such other address as the Depositor or such other parties may have furnished to you and to the other parties in writing. Any notice to you shall be effective when received at your address above.

e) Your fees as Escrow Agent shall be \$300 per year.

f) The undersigned shall reimburse you for all expenses (including New York and Federal taxes and other governmental charges) incurred by you in connection with your duties hereunder and shall indemnify you and save you harmless against any and all liabilities, costs, and expenses, including counsel fees, for anything done or omitted by you in the performance of this Agreement, except as a result of your own negligence or bad faith.

5. This Agreement shall be construed in accordance with and governed by the law of the State of New York and shall be binding upon you and the Depositor and your and its respective successors and assigns; provided that any assignment or

transfer by the Depositor or Second Party of its rights under this Agreement or with respect to the Fund shall be void as against you unless (i) written notice thereof shall be given to you, (ii) the assignee or transferee shall agree in writing to be bound by the provisions of the Agreement, and (iii) you and the other Party shall have consented to such assignment or transfer.

If the foregoing Agreement is satisfactory to you, please so indicate by signing at the place provided below.

Agreed to by H. KOHNSTAMM & COMPANY, INC.

By: Paul L Kohnstamm, Pres
NAME, TITLE

Agreed to by BANKERS TRUST COMPANY

By: _____
NAME, TITLE

Dated: _____

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X

WARNER-JENKINSON COMPANY, :

Plaintiff, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

CIVIL ACTION

NO. _____

-----X

-and-

-----X

H. KOHNSTAMM & COMPANY, INC., :

Plaintiff, Intervenor, :

v. :

ALLIED CHEMICAL CORPORATION, :

Defendant. :

-----X

AFFIDAVIT OF PAUL LEMPEL IN SUPPORT
OF ORDER TO SHOW CAUSE

STATE OF NEW YORK)
: .ss:
COUNTY OF NEW YORK)

PAUL LEMPEL being duly sworn deposes and says that:

1. He is a member of the firm of Kenyon & Kenyon
Reilly Carr & Chapin, and is an attorney for plaintiffs in this
action. He is a member of the Bar of this Court.

2. He makes this Affidavit in support of the entry
of the accompanying Order To Show Cause for an order approving the
Escrow Agreements appended to the proposed Order; ordering that,
during the pendency of this action, plaintiffs shall deposit

royalties under their respective License Agreements with defendant, Allied Chemical Corporation, dated as of March 1, 1975, for United States Patent Nos. 3,519,617 and 3,640,733 in escrow, in accordance with said Escrow Agreements; and, ordering that during the pendency of this action such deposits in escrow shall be in full performance of plaintiffs' royalty obligations under said License Agreements.

3. Good and sufficient cause for the entry of this Order To Show Cause is demonstrated by the following:

- (a) Plaintiffs are licensees under United States Patent Nos. 3,519,617 and 3,733,640 assigned to defendant-licensor, Allied Chemical Corporation.
- (b) Plaintiffs have this date filed a Civil Action in this Court seeking a declaration that said licensed patents are invalid, not infringed and unenforceable, and for other relief affecting the relationship of the parties with respect to the said patents.
- (c) Plaintiffs' Complaint alleges, inter alia:
 - (i) That Allied asserts that its said patents claim the food, drug and cosmetic color additive F.D. & C. Red No. 40.
 - (ii) That plaintiffs make, use and sell F.D. & C. Red No. 40, and that said color additive is the sole commercially practicable red color additive suitable for general use in foods, drugs and cosmetics permitted for use in the

United States by the Food and Drug Administration and for which no reasonably interchangeable and federally approved substitute yet exists.

- (iii) That to continue in their present businesses plaintiffs must supply such color to their customers.
- (iv) That said patents are invalid, unenforceable, not infringed and misused for reasons alleged in the Complaint.
- (v) That during the pendency of the action plaintiffs will continue to perform under the license agreements, and royalties that may be due will be delivered in escrow, subject to this Court's approval. Further, plaintiffs moved and herein do move this Court to approve the escrow arrangements for the pendency of this litigation.

4. Deposit of royalties that may be due into an escrow fund subject to the control of the Court will preserve plaintiffs' rights not to pay royalties under invalid patents and will maintain the status quo pending the determination of the invalidity of the said patents. The aforesaid escrow arrangements are proper in view of the public policy considerations set out in Lear, Inc. v. Adkins, 395 U.S. 693 (1969) and such procedure authorized by subsequent judicial authority.

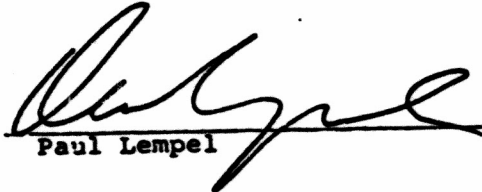
✓
5. Insufficient time exists to bring this motion by the customary procedure because:

- (a) Royalties under the license agreements are due on June 30, 1976 and the approval of the escrow arrangements by this Court is required by that date in order to protect plaintiffs' right to proceed with this action without fear that the license agreements can or will be terminated.
- (b) This litigation was not filed earlier because plaintiff, Warner-Jenkinson Company, had sought to negotiate with defendant, Allied Chemical Corporation, concerning its license and alleged patent rights. This was an attempt to resolve the controversy between the parties without the need for the filing of this civil action. Such attempted negotiations were unsuccessful. This suit was commenced upon the completion of the attempted negotiations and after the completion of negotiation with the proposed escrow agent regarding the terms of the escrow agreement.

✓
6. No prior application for this relief has been made.

Further Affiant sayeth not.

New York, New York
June 22, 1976.


Paul Lempel

Sworn to and subscribed before
me this 22nd day of June, 1976.


Notary Public

JEAN LORRAINE LEITES
Notary Public, State of New York
No. 30-432157
Qualified in Nassau County
Certificate filed in New York County
Commission Expires March 30, 1978

A-322

AFFIDAVIT OF SERVICE

State of New York
City and County of New York

ss.:

*Motion denied. Little order.
Harris E. Frankel
U.S.D. 9*

Jean-Lorraine Leitgeb, being first duly sworn, deposes and says that *she* is over 21 years of age and is a clerk in the office of Kenyon & Kenyon Reilly Carr & Chapin, Solicitors and of counsel for Plaintiffs, Warner-Jenkinson and H. Kohnstamm, herein; that on the 22nd day of June, 1976, at 5:15 o'clock in the afternoon *she* served the within Order to Show Cause

upon William T. Gilbreth, Esq.
Fish & Neave, 277 Park Avenue
by exhibiting *personally* the within original and delivering a copy thereof to him.
at his office,
New York, N. Y.,

Subscribed and sworn to before me this 23rd day of June, 1976.

Jean-Lorraine Leitgeb

Ann Marie Traino
Notary Public
ANN MARIE TRAINO
Notary Public, State of New York
No. 24-9370185 Kings County
Certificate filed in New York County
Term Expires March 30, 1978

AUG 11 1976
MICROFILM

United States District Court Southern District of New York (Civil Action, File No. (In Patent No.	WARNER-JENKINSON COMPANY Plaintiff, H. KOHNSTAMM & COMPANY, INC. Plaintiff, Intervenor vs. ALLIED CHEMICAL CORPORATION Defendant	ORDER TO SHOW CAUSE AND AFFIDAVIT	KENYON & KENYON REILLY CARR & CHAPIN Attorneys for Plaintiff and Plaintiff, Intervenor 59 MAIDEN LANE NEW YORK, N. Y. 10038 Copy received this 22 day of June 1976. at 5:20 P.M. <i>Stacy for called</i> at 1411 Broadway N.Y.C. 39th Floor
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Sir: Please take notice that the

of which the within is a copy, was on the day of 1976, duly entered and filed in the office of the clerk of the U.S. District Court for the District of

Dated, New York, N. Y., 197

Yours &c.;

KENYON & KENYON REILLY CARR & CHAPIN.
Attorneys for

59 MAIDEN LANE
SECTION OF MANHATTAN
NEW YORK, N. Y. 10038

CERTIFICATE OF SERVICE

I hereby state under penalty of perjury that a true copy of the within

Show Cause and Affidavit
Up today 8:15 am by the serving party
(justices). Personally served
on Allied by deposition
copy with reciprocal
(quid) Mr. Henry Edwards
at 1411 Broadway
Kenyon Kenyon Reilly Carr & Chapin
39th Floor N.Y.C.
at 5:20 PM on June 22, 1976
Calypso

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



-----x
WARNER-JENKINSON COMPANY and
H. KOHNSTAMM & COMPANY, INC.,

Plaintiffs, : Civil Action No.

v. : 76 Civ. 2744 (MEP)

ALLIED CHEMICAL CORPORATION,

Defendant. :
-----x

NOTICE OF MOTION

To: Francis T. Carr, Esq. ..
Paul Lempel, Esq.
Edwin Baranowski, Esq.
Kenyon & Kenyon Reilly Carr & Chapin
59 Maiden Lane
New York, New York 10038
Tel. 212-425-7200

Attorneys for Plaintiffs

PLEASE TAKE NOTICE that, at 10:30 A.M. on August 11, 1976,
or as soon thereafter as counsel may be heard, defendant will bring
the annexed motion to dismiss the complaint on for hearing before
the Honorable Marvin E. Frankel, United States District Judge,
United States Courthouse, Foley Square, New York, New York.

FISH & NEAVE

July 28, 1976.

By W. J. Gilbreth
William J. Gilbreth
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

OF COUNSEL:

William K. Kerr
John E. Nathan
Hugh C. Barrett
Fish & Neave
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

Roy H. Massengill
Jay P. Friedenson
Allied Chemical Corporation
P.O. Box 1057R
Morristown, New Jersey 07960
Tel. 201-455-5127

25

A-324

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X
WARNER-JENKINSON COMPANY and :
H. KOHNSTAMM & COMPANY, INC., :

Plaintiffs, : Civil Action No.

v. : 76 Civ. 274 (MEF)

ALLIED CHEMICAL CORPORATION, :

Defendant. :
-----X

DEPENDANT'S RULE 12(b)(1) MOTION
TO DISMISS THE COMPLAINT

Defendant Allied Chemical Corporation hereby moves this
Court to dismiss the complaint pursuant to Rule 12(b)(1), F.R.Civ.P.

The ground for this motion, as more fully set forth in
the accompanying memorandum and affidavit, is that this Court lacks
jurisdiction over the subject matter of this action.

Defendant requests that oral argument on this motion be
heard concurrently with oral argument on plaintiffs' pending appli-
cation for an order authorizing plaintiffs to deposit royalties in
escrow during the pendency of this action, now set for hearing at
10:30 A.M. on August 11, 1976, because common issues are raised by
defendant's motion and plaintiffs' application.

FISH & NEAVE

July 28, 1976.

By W. J. Gilbreth
William J. Gilbreth
Attorneys for Defendant
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

OF COUNSEL:

William K. Kerr
John E. Nathan
Hugh C. Barrett
Fish & Neave
277 Park Avenue
New York, New York 10017
Tel. 212-826-1050

Roy H. Massengill
Jay P. Friedenson
Allied Chemical Corporation
P.O. Box 1057R
Morristown, New Jersey 07960
Tel. 201-455-5127

76 Civ. 2744 (MEF)

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

WARNER-JENKINSON COMPANY and
H. KOHNSTAMM & COMPANY, INC.,

Plaintiffs,

v.

ALLIED CHEMICAL CORPORATION,

Defendant.

NOTICE OF MOTION AND
DEFENDANT'S RULE 12(b)(1) MOTION
TO DISMISS THE COMPLAINT

*Copy prepared
11/20/76
Hue*

FISH & NEAVE

277 PARK AVENUE

NEW YORK, N. Y. 10017

TEL. (212) 826-1050

August 11, 1976

Motion granted. Settle order.

Marion E. Frankel
U.S.D.J.

mf



20111007

INTENTIONAL

Certificate of Service

I hereby state under penalty of perjury that two (2) copies of BRIEF FOR PLAINTIFFS - APPELLANTS and one (1) copy of APPENDIX TO THE BRIEFS was personally served by me on Fish & Neave, Attorneys for Appellee, Allied Chem Corporation, by delivery of said copies to the offices of Fish & Neave, 277 Park Avenue, New York, New York 10017 this 22nd day of October, 1976 at 12:25 P.M.

Bernard Seidner

Bernard Seidner